ZURICH®

August 31, 2016

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, 2016. Fund performance does not take into account the fees charged by your contract. If these fees had been included, the performance would have been lower. As always, past performance cannot predict or guarantee future returns.

We hope that the enclosed information is helpful. If you have any questions concerning your contract, please do not hesitate to call our Service Center at (800) 449-0523 (toll free).

Thank you for placing your variable annuity contract with us.

Sincerely,

Richard Grilli

Richard W. Grilli
Senior Vice President and Chief Operating Officer

Enclosure

Zurich American
Life Insurance Company

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

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

ZURICHAMERICANLIFEINSURANCE.COM

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche Communications Fund
Deutsche CROCI® International Fund
Deutsche CROCI® International VIP
Deutsche CROCI® Sector Opportunities Fund
Deutsche EAFE® Equity Index Fund
Deutsche Global Equity Fund
Deutsche Global Equity VIP
Deutsche Global Growth Fund
Deutsche Global Growth VIP
Deutsche Global Infrastructure Fund
Deutsche Global Small Cap Fund
Deutsche Global Small Cap VIP
Deutsche Gold & Precious Metals Fund
Deutsche World Dividend Fund

The following disclosure replaces similar disclosure contained under the "MAIN RISKS" of each fund's summary prospectus.

Foreign investment risk. The fund faces the risks inherent in foreign investing. Adverse political, economic or social developments could undermine the value of the fund's investments or prevent the fund from realizing the full value of its investments. In June 2016, citizens of the United Kingdom approved a referendum to leave the European Union (EU), creating economic and political uncertainty. Significant uncertainty exists regarding the timing of the United Kingdom's anticipated withdrawal from the EU and the effects such withdrawal may have on the United Kingdom, other EU countries and the global economy. Financial reporting standards for companies based in foreign markets differ from those in the US. Additionally, foreign securities markets generally are smaller and less liquid than US markets. To the extent that the fund invests in non-US dollar denominated foreign securities, changes in currency exchange rates may affect the US dollar value of foreign securities or the income or gain received on these securities.

Please Retain This Supplement for Future Reference

July 26, 2016
PROSTKR-671

Deutsche
Asset Management

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUS

Deutsche Global Growth VIP

Effective on or about October 3, 2016, the summary prospectus is supplemented as follows:

The following information replaces the first two paragraphs under the "Main investments" sub-heading and the disclosure under the "Management process" sub-heading contained in the "PRINCIPAL INVESTMENT STRATEGY" section of the fund's summary prospectuses:

Main Investments. Under normal circumstances, the fund invests at least 80% of net assets, plus the amount of any borrowings for investment purposes, in common stocks and other equities of companies throughout the world that portfolio management considers to be "blue chip" companies. Blue chip companies are large, well known companies that typically have an established earnings and dividends history, easy access to credit, solid positions in their industries and strong management.

The fund can invest in companies from any country, including countries with emerging economies. The fund's equity investments may also include preferred stocks and other securities with equity characteristics, such as convertible securities and warrants.

Management process. Portfolio management aims to add value through stock selection. In choosing securities, portfolio management employs a risk-balanced bottom-up selection process to identify companies it believes are well-positioned. Portfolio management utilizes a proprietary investment process designed to identify attractive investments utilizing proprietary research, including regional and sector research, conducted by in-house analysts. The investment process also takes into consideration various valuation metrics to assess the attractiveness of stocks and assists portfolio management in devising allocations among investable securities.

Portfolio management uses analytical tools to actively monitor the risk profile of the portfolio as compared to appropriate benchmarks. Portfolio management will normally sell a stock when its price fully reflects portfolio management's estimate of its fundamental value, its fundamentals have deteriorated, other investments offer better opportunities or in the course of adjusting the fund's exposure to a given country or sector.

The following information replaces the existing disclosure contained under the "Portfolio Manager(s)" sub-heading of the "MANAGEMENT" section of the fund's summary prospectuses.

Sebastian P. Werner, PhD, Vice President. Lead Portfolio Manager of the fund. Began managing the fund in 2013.

Mark Schumann, CFA, Director. Portfolio Manager of the fund. Began managing the fund in 2015.

Please Retain This Supplement for Future Reference

July 19, 2016
PROSTKR-664

Deutsche
Asset Management

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche Large Cap Value Fund

Deutsche Large Cap Value VIP

The following information replaces the "Main investments" and the "Management process" disclosure contained in the "PRINCIPAL INVESTMENT STRATEGY" section of each fund's summary prospectus(es):

Main Investments. Under normal circumstances, the fund invests at least 80% of net assets, plus the amount of any borrowings for investment purposes, in common stocks and other equity securities of large US companies that are similar in size to the companies in the Russell 1000® Value Index and that portfolio management believes are undervalued. These are typically companies with strong fundamentals and histories of consistent dividend growth. While the market capitalization range of the Russell 1000® Value Index changes throughout the year, as of June 30, 2016, the market capitalization range of the Russell 1000® Value Index was between approximately $1.48 billion and $515.59 billion.

Although the fund can invest in stocks of any economic sector (which is comprised of two or more industries), at times it may emphasize certain sectors, even investing more than 25% of total assets in any one sector. The fund may invest up to 20% of net assets in foreign securities.

Management process. Portfolio management employs an investment process that seeks to identify high-quality, undervalued companies with prospects for long-term above-average total return driven by sustainable and growing dividends. Current yield, company fundamentals and macroeconomic views are considered in security selection and sector weighting decisions.

Portfolio management seeks to achieve superior long-term risk-adjusted returns by:

- Identifying high-potential investment candidates through a combination of screening and fundamental research.
- Identifying companies with historical dividend growth and/or current yield above their respective sector medians.
- Analyzing individual company fundamentals and broader market and economic conditions in selecting portfolio holdings and sector weightings.
- Integrating risk management into the stock selection and portfolio construction processes.

Typically, portfolio management expects to invest in 60-80 holdings across multiple sectors and industries.

Portfolio management will typically sell a stock when its fundamentals have changed, the stock's dividend has been cut, other investments offer better opportunities, or in the course of adjusting the fund's emphasis in a given sector or industry.

The following information replaces the existing disclosure contained under the "Portfolio Manager(s)" sub-heading of the "MANAGEMENT" section of each fund's summary prospectus(es).

Walter R. Holman, CFA, Director. Portfolio Manager of the fund. Began managing the fund in 2016.

Brendan O'Neill, CFA, Director. Portfolio Manager of the fund. Began managing the fund in 2016.

Please Retain This Supplement for Future Reference

August 3, 2016
PROSTKR-675

Deutsche
Asset Management

ALGER

THE ALGER PORTFOLIOS

Alger Balanced Portfolio

SEMI-ANNUAL REPORT

JUNE 30, 2016 (UNAUDITED)

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ALGER BALANCED PORTFOLIO

Go Paperless With Alger Electronic Delivery Service

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Shareholders' Letter

June 30, 2016

Dear Shareholders,

The Appeal of Growth Equities Strengthens as Investor Rush to Bond-Like Equities

Gary Larson's quirky cartoon series, "The Far Side," draws chuckles by having animals exhibit human-like behavior. In one popular cartoon, a massive bison stampede extends to the horizon. One insightful bison quips to a neighboring beast, "As if we all knew where we're going." As demonstrated during the six-month reporting period ended June 30, investors can also stampede without apparent direction. Indeed, many investors flocked to defensive stocks, or stocks that offer high dividend yields but little or no potential for earnings growth. In doing so, we believe investors have entered perilous grounds. Indeed, in our opinion, investors who have focused on defensive stocks are likely to miss the potentially strong returns of growth equities. The concern is particularly timely with corporate fundamentals, equity valuations, and large-scale global trends all pointing to strong potential for growth equities to outperform in the foreseeable future.

The Rush to Bond-Like Equities

During the reporting period, low and declining interest rates drove investors to snatch up bond-like equities. As of mid-year, approximately $11.7 trillion in global government debt has been trading with negative yields, according to Fitch. The low yields have caused many investors to embrace U.S. debt, which in turn has driven the yield of the 10-Year Treasury bond to near-record lows. Yield hungry investors, therefore, have turned to equities of companies that pay attractive dividends, even though many of those companies are unlikely, in our view, to substantially grow their earnings. The results of this behavior are striking. Within the S&P 500 Index, the defensive Telecommunication Services and Utilities sectors returned 24.8% and 23.4%, respectively, compared to the 3.8% overall return of the index. The defensive Consumer Staples sector also outperformed with a 10.5% return. Conversely, the Information Technology and Consumer Discretionary sectors, both of which are characterized as having innovative and dynamic companies with high earnings growth, generated -0.3% and 0.7% returns, respectively.

We believe market volatility following the United Kingdom vote to leave the European Union (E.U.), or Brexit, may have also driven investors to favor defensive stocks. Some economists have argued that Brexit could create uncertainty over trade agreements in Europe, which could reduce confidence in the British pound and hinder investments. If economic growth weakens in Europe, central banks would respond with additional stimulus, which in turn could devalue currencies across the Atlantic relative to the U.S. dollar. A stronger dollar could challenge U.S. exporters by making their products more expensive for businesses and consumers abroad. At least initially, it appears that investors were also opposed to Brexit with the June 24 announcement that the U.K. had decided to leave the E.U. sparking a short but significant equity selloff. From June 24 until the close of trading on June 27, the S&P 500 Index declined 4.1%. In past commentaries, we have urged investors to ride out volatility and to use market dips to buy attractively priced equities. In the case of Brexit, such a strategy would have generated strong gains with the S&P 500 Index quickly reversing direction and generated a 4.95% return in the final days of June.

A Once-in-a-20-Year Event

Rather than continue to select stocks solely on the appeal of dividend yields, we urge investors to compare the potential performance of defensive stocks and growth equities. We believe such a comparison, which should include an analysis of valuations and other factors, points to growth stocks having strong potential for outperforming in the foreseeable future. In assessing valuations, it is helpful to compare price-to-earnings ratios (P/E ratios) to 20-year medians. As of June 30, P/E ratios for the defensive Consumer Staples and Utilities sectors were 27% and 31% higher than each sector's 20-year median. Yet, P/E ratios for Consumer Discretionary, Health Care, and Information Technology sectors, which typically have the most vibrant and fastest growing companies, ranged from 7% to 10% below their respective 20-year medians. A difference of that magnitude between defensive and growth sectors hasn't occurred in more than 20 years. From a historical perspective, defensive stocks are clearly expensive, while growth stocks are inexpensive. In a similar manner, large cap growth stocks as represented by the Russell 1000 Growth Index have traditionally traded at an approximately 40% premium to their value counterparts, but as of June 30 were trading at only a 16% premium. In the past, low P/E ratios have typically indicated strong potential for stocks to outperform and we believe the current growth stock valuations are no exception.

Over the long term, equity returns are driven by corporate fundamentals, including earnings and revenue growth. While dividends play a role in the total return an investor should expect from equities, it is a mistake, in our view, to focus solely, or overly, on the dividend yield of a stock itself. It is, after all, a company's fundamental success with growing its sales and profits that ultimately delivers the cash flow to support dividends, dividend growth, and valuations. From that perspective, growth equities are particularly appealing in our view. Earnings per share growth for the Consumer Discretionary sector is expected to be twice the rate of Consumer Staples and more than three times the rate of Utilities during the next five years, according to consensus estimates from FactSet Research Systems. Earnings growth for Health Care and Information Technology sectors is also expected to substantially outpace Consumer Staples and Utilities. Even assuming defensive stocks stay richly valued relative to growth stocks and P/E ratios don't change, the disparity in earnings growth will cause growth stocks to outperform.

Investors should also assess the impact upon dividend-paying stocks of a potential increase in interest rates. Much like fixed-income securities, these bond-like equities are very interest rate sensitive. Even a small change in interest rates or inflation could hurt the performance of bond-like stocks, especially those trading at high valuations with poor growth prospects or leveraged balance sheets.

Brexit Fears, Bond-like Equities, and Fundamental Research

During the reporting period, our research strengthened our belief that rushing to bond-like equities and taking an overly cautious approach regarding Brexit are significant mistakes. We based that conclusion on our belief that U.S. corporations have strong potential for growing their revenues by offering competitive products both abroad and domestically. From a broad perspective, the expected earnings growth rate for the S&P 500 Index has declined, in part due to concerns over weak global economic growth, a headwind of a strong U.S. dollar on exports, and the impact of low oil prices upon energy companies despite the commodity appearing to have bottomed in February. Yet, S&P 500 Index ex-Energy earnings are expected to grow 3% to 4% this year. We caution investors, however, to avoid reaching a conclusion based on overall expectations for U.S. corporations. Rather, investors should assess the possibilities for leading companies to grow their earnings at rates that defy the overall economic environment. Indeed, indicators of consumer spending like ecommerce, travel, leisure, automotive, and home durables are quite healthy, despite the weakness reported in headlines about department store sales and the sales of other "old" economy retailers. Changing patterns of consumer preferences – largely based, in our view, on both ecommerce technology and on the rise of younger generations of Americans (the "X" and "Y" generations) as the Baby Boomers increasingly retire – is a large phenomenon that creates challenges for companies that haven't adapted to the "new" marketplace and great opportunities for those that have helped define it. Amazon.com, Inc., Netflix, Inc., and Alphabet, Inc. (formerly Google) are all doing quite well in this new American marketplace, while the landscape, especially in retail, is littered with companies, once good or even great, but today struggling to adapt their business models to the new and obvious reality.

Reasons for Optimism

We maintain that the U.S. will continue to be an economic leader. June marked the 76th consecutive month of private-sector job growth in the U.S., which is an unprecedented accomplishment, and during the first five months of this year, the average hourly earnings for private sector employees increased at a 3.2% annual rate. In addition to steady job creation, the nation's 4.9% unemployment rate implies that the job market is healthy. We continue to believe that low oil prices combined with low inflation and the Federal Reserve's cautious approach to raising interest rates will support the country's economy.

Corporate America is also strong with S&P 500 Index companies ex-financials holding $1.45 trillion in cash in the first quarter, which is the highest level in at least 10 years, according to FactSet. S&P 500 Index companies have also repurchased $588 billion in stock for the 12-month period ending 3/31/16, according to Standard & Poor's.

We urge investors to carefully assess the appeal of growth equities and to evaluate the role of bond-like equities in their investment strategies. We are in an era of rapid and dynamic change. New technologies such as the internet, smartphones, eBooks, and social media have reached 50% market penetration in a fraction of the time that older innovations such as washing machines, dishwashers, and landline telephones required. Medical innovation in orthopedic, cardiac, and cancer treatments (to name only a few) has advanced and will continue to advance in ways that were unimaginable only a generation or so ago. We think every prudent, long-term investor should have a portfolio "overweight" in the industries, companies, and trends that are changing nearly every aspect of modern-day life.

Portfolio Matters

The Alger Balanced Portfolio returned 3.54% for the fiscal six-month period ended June 30, 2016. The equity portion of the Portfolio outperformed the 1.36% return of the Russell 1000 Growth Index, and the fixed-income portion outperformed the 6.23% 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 Health Care and Energy sectors was the most important contributor to performance, while Financials and Consumer Discretionary detracted from results.

Among the most important relative contributors were Johnson & Johnson; Tyco International PLC; Altria Group, Inc.; and AT&T Inc. Another contributor, Exxon Mobil Corp., is a global energy producer and distributor. The shares contributed to performance as energy prices rallied significantly, thereby raising the prospect of better earnings. Investors were also attracted to the company's dividend.

Conversely, detracting from relative performance were Morgan Stanley; Delphi Automotive PLC; Bank of America Corp.; and Wells Fargo & Co. Shares of Royal Caribbean Cruises Ltd also detracted from results. Royal Caribbean shares underperformed in response to investors growing concern that demand for international itineraries may be suppressed by terrorism, currency exchange rates, and geopolitical turmoil. Concerns over potentially higher fuel costs also weighed upon investor sentiment.

Regarding the fixed-income portion of the Portfolio, as of June 30, 2016, 100% of the Portfolio's fixed income assets were in corporate securities. During the reporting period, the number of securities held was reduced from 14 to 11. Money flooded into Treasuries and corporate bonds during the first six month of the year in large part due to the relatively attractive yields offered by U.S. debt compared to international alternatives. A 1.48% U.S. 10-year yield may not look very attractive in absolute terms, but it represents one of the highest AAA-rated sovereign yields available globally. As it has done with other asset classes for the month of June, Britain's referendum vote had a significant impact on corporate spreads. Despite early reports and surveys done in the week leading up to the vote that did not show a clear winner, many treated the decision in a binary fashion. With most market participants expecting that Britain would remain part of the European Union, stocks gained, Treasury yields rose, and corporate spreads tightened. All of those gains, and then some, were immediately wiped away when markets opened on June 24, the morning after Britain voted to leave the EU. Investors piled into the safety of Treasuries, causing yields to plummet. As long as the impact to the U.S. economy remains manageable as we expect, the Federal Reserve probably will not follow the lead of the European central banks by lowering rates or restarting quantitative easing. However, the timetable for the next rate hike will be pushed out somewhat.

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

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

This report and the financial statements contained herein are submitted for the general information of shareholders of the 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 returns represent the fiscal six-month period return of Class I-2 shares. Returns include reinvestment of dividends and distributions.

The performance data quoted in these materials represent past performance, which is not an indication or guarantee of future results.

Standard performance results can be found on the following pages. The investment return and principal value of an investment in a Portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, visit us at www.alger.com, or call us at (800) 992-3863.

The views and opinions of the 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, 2016. 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. 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. Portfolios that invest in fixed-income securities, such as the Alger Balanced Portfolio, are subject to 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 the Portfolio's investment objective, risks, charges, and expenses. For a prospectus containing this and other information

about the Alger Portfolios, call us at (800) 992-3863 or visit us at www.alger.com. Read it carefully before investing.

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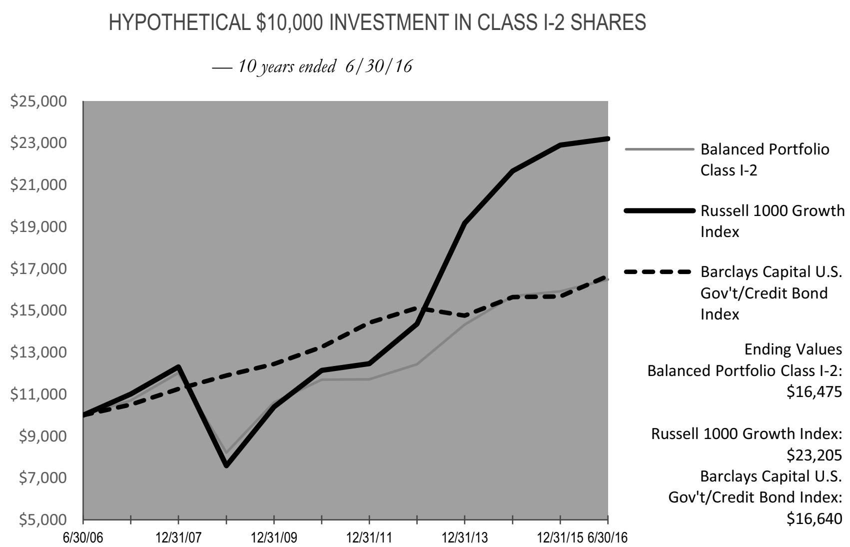
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- The Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.
- The S&P 500 index is an index of large company stocks considered to be representative of the U.S. stock market. Index performance does not reflect deduction for fees, expenses, or taxes. Investors cannot invest directly in any index.
- FactSet provides computer-based financial data and analysis for financial professionals, including investment managers, hedge funds, and investment bankers.
- Fitch provides a variety of financial services, including credit ratings, data, research and educational programs.



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, 2016. 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 6/30/16

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 9/5/1989
Class I-2 (Inception 9/5/89)	3.70%	6.47%	5.12%	7.41%
Russell 1000 Growth Index	3.02%	12.35%	8.78%	8.86%
Barclays Capital U.S. Gov't/Credit Bond Index	6.70%	4.11%	5.22%	6.46%

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, 2016 (Unaudited)

SECTORS/SECURITY TYPES	Alger Balanced Portfolio
Consumer Discretionary	8.5%
Consumer Staples	8.7
Energy	4.5
Financials	11.4
Health Care	10.9
Industrials	8.0
Information Technology	12.1
Materials	0.9
Telecommunication Services	2.7
Utilities	0.5
Total Equity Securities	68.2
Corporate Bonds	27.8
Total Debt Securities	27.8
Short-Term Investments and Net Other Assets	4.0
	100.0%

† *Based on net assets for the Portfolio.*

COMMON STOCKS—64.2%	SHARES	VALUE
AEROSPACE & DEFENSE—3.3%		
General Dynamics Corp.	3,600	$ 501,264
Honeywell International, Inc.	8,900	1,035,248
The Boeing Co.	6,100	792,207
		2,328,719
AIR FREIGHT & LOGISTICS—0.6%		
United Parcel Service, Inc., Cl. B	3,700	**398,564**
AIRPORT SERVICES—0.5%		
Macquarie Infrastructure Corp.	5,100	**377,655**
APPAREL RETAIL—0.8%		
L Brands, Inc.	3,100	208,103
VF Corp.	5,800	356,642
		564,745
ASSET MANAGEMENT & CUSTODY BANKS—1.0%		
BlackRock, Inc.	2,100	**719,313**
AUTO PARTS & EQUIPMENT—0.7%		
Delphi Automotive PLC.	8,000	**500,800**
BIOTECHNOLOGY—1.0%		
Amgen, Inc.	2,000	304,300
Gilead Sciences, Inc.	5,200	433,784
		738,084
BREWERS—0.7%		
Molson Coors Brewing Co., Cl. B	4,900	**495,537**
CABLE & SATELLITE—1.3%		
Comcast Corporation, Cl. A	13,803	**899,818**
CASINOS & GAMING—0.3%		
Las Vegas Sands Corp.	4,600	**200,054**
COMMUNICATIONS EQUIPMENT—0.8%		
Cisco Systems, Inc.	20,300	**582,407**
CONSUMER ELECTRONICS—0.3%		
Garmin Ltd.	5,700	**241,794**
CONSUMER FINANCE—0.5%		
Discover Financial Services	6,100	**326,899**
DIVERSIFIED BANKS—3.2%		
JPMorgan Chase & Co.	20,800	1,292,512
Wells Fargo & Co.	20,700	979,731
		2,272,243
DIVERSIFIED CHEMICALS—0.6%		
The Dow Chemical Co.	8,400	**417,564**
DRUG RETAIL—1.4%		
CVS Caremark Corp.	7,700	737,198
Walgreens Boots Alliance, Inc.	3,200	266,464
		1,003,662
ELECTRICAL COMPONENTS & EQUIPMENT—0.4%		
Eaton Corp., PLC.	4,100	**244,893**
FERTILIZERS & AGRICULTURAL CHEMICALS—0.3%		
Monsanto Co.	1,300	134,433
Potash Corporation of Saskatchewan, Inc.	6,600	107,184
		241,617

COMMON STOCKS—(CONT.)	SHARES	VALUE
HEALTH CARE EQUIPMENT—0.6%		
Becton Dickinson and Co.	2,600	**$ 440,934**
HOME IMPROVEMENT RETAIL—1.5%		
The Home Depot, Inc.	8,500	**1,085,365**
HOTELS RESORTS & CRUISE LINES—0.4%		
Royal Caribbean Cruises Ltd.	4,300	**288,745**
HOUSEHOLD PRODUCTS—1.1%		
The Procter & Gamble Co.	9,200	**778,964**
HYPERMARKETS & SUPER CENTERS—0.6%		
Wal-Mart Stores, Inc.	5,800	**423,516**
INDUSTRIAL CONGLOMERATES—1.6%		
General Electric Co.	34,907	**1,098,872**
INTEGRATED OIL & GAS—2.9%		
Exxon Mobil Corp.	16,100	1,509,214
TOTAL SA#	11,300	543,530
		2,052,744
INTEGRATED TELECOMMUNICATION SERVICES—2.7%		
AT&T, Inc.	15,000	648,150
Verizon Communications, Inc.	22,808	1,273,599
		1,921,749
INTERNET SOFTWARE & SERVICES—2.9%		
Alphabet, Inc., Cl. A*	1,000	703,530
Alphabet, Inc., Cl. C*	1,003	694,176
Facebook, Inc., Cl. A*	5,400	617,112
		2,014,818
INVESTMENT BANKING & BROKERAGE—1.3%		
Morgan Stanley	26,500	688,470
TD Ameritrade Holding Corp.	8,900	253,427
		941,897
LEISURE FACILITIES—0.6%		
Six Flags Entertainment Corp.	6,900	**399,855**
LEISURE PRODUCTS—0.9%		
Coach, Inc.	8,400	342,216
Mattel, Inc.	8,800	275,352
		617,568
MANAGED HEALTH CARE—1.9%		
Aetna, Inc.	5,600	683,928
UnitedHealth Group, Inc.	4,500	635,400
		1,319,328
MOVIES & ENTERTAINMENT—0.5%		
Time Warner, Inc.	5,000	**367,700**
MULTI-LINE INSURANCE—0.6%		
Hartford Financial Services Group, Inc.	8,700	**386,106**
MULTI-UTILITIES—0.5%		
Sempra Energy	3,300	**376,266**
OIL & GAS EQUIPMENT & SERVICES—0.6%		
Halliburton Company	10,000	**452,900**
OIL & GAS EXPLORATION & PRODUCTION—0.7%		
ConocoPhillips	10,900	**475,240**

COMMON STOCKS—(CONT.)	SHARES	VALUE
OTHER DIVERSIFIED FINANCIAL SERVICES—0.7%		
Bank of America Corp.	35,000	$ **464,450**
PACKAGED FOODS & MEATS—0.7%		
The Kraft Heinz Co.	5,600	**495,488**
PHARMACEUTICALS—6.9%		
Bristol-Myers Squibb Co.	14,200	1,044,410
Eli Lilly & Co.	10,500	826,875
GlaxoSmithKline PLC.#	8,400	364,056
Johnson & Johnson	9,800	1,188,740
Pfizer, Inc.	30,289	1,066,476
Roche Holding AG#	12,300	405,285
		4,895,842
RAILROADS—0.8%		
CSX Corp.	21,100	**550,288**
RESTAURANTS—1.2%		
Darden Restaurants, Inc.	4,000	253,360
McDonald's Corp.	4,900	589,666
		843,026
SECURITY & ALARM SERVICES—0.8%		
Tyco International PLC.	13,800	**587,880**
SEMICONDUCTOR EQUIPMENT—0.5%		
Kla-Tencor Corp.	4,700	**344,275**
SEMICONDUCTORS—2.6%		
Broadcom Ltd.	5,400	839,160
Intel Corp.	20,800	682,240
QUALCOMM, Inc.	6,300	337,491
		1,858,891
SOFT DRINKS—2.3%		
PepsiCo, Inc.	10,100	1,069,994
The Coca-Cola Co.	12,700	575,691
		1,645,685
SPECIALIZED FINANCE—0.9%		
CME Group, Inc.	6,800	**662,320**
SYSTEMS SOFTWARE—2.4%		
Microsoft Corp.	32,700	**1,673,259**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—2.9%		
Apple, Inc.	17,700	1,692,120
Western Digital Corp.	7,700	363,902
		2,056,022
TOBACCO—1.9%		
Altria Group, Inc.	19,000	**1,310,240**
TOTAL COMMON STOCKS (Cost $35,186,018)		**45,384,601**

CONVERTIBLE PREFERRED STOCKS—0.5%	SHARES	VALUE
PHARMACEUTICALS—0.5%		
Allergan PLC., 5.50%, 3/1/2018	400	**333,448**
(Cost $400,000)		**333,448**

MASTER LIMITED PARTNERSHIP—1.2%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—0.9%		
The Blackstone Group LP.	25,500	$ **625,770**
OIL & GAS STORAGE & TRANSPORTATION—0.3%		
Cheniere Energy Partners LP.	8,200	**245,836**
TOTAL MASTER LIMITED PARTNERSHIP (Cost $840,057)		**871,606**

REAL ESTATE INVESTMENT TRUST—2.3%	SHARES	VALUE
HEALTH CARE—0.6%		
Welltower, Inc.	5,500	**418,935**
MORTGAGE—0.5%		
Blackstone Mortgage Trust, Inc., Cl. A	10,900	**301,603**
SPECIALIZED—1.2%		
Crown Castle International Corp.	4,400	446,292
Lamar Advertising Co., Cl. A	6,300	417,690
		863,982
TOTAL REAL ESTATE INVESTMENT TRUST (Cost $1,363,906)		**1,584,520**

CORPORATE BONDS—27.8%	PRINCIPAL AMOUNT	VALUE
AGRICULTURAL PRODUCTS—1.6%		
Cargill, Inc., 7.35%, 3/6/2019[a]	1,000,000	**1,155,971**
COMPUTER HARDWARE—3.1%		
HP, Inc., 4.38%, 9/15/2021	2,000,000	**2,156,810**
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—2.6%		
John Deere Capital Corp., 2.75%, 3/15/2022	1,750,000	**1,827,684**
DIVERSIFIED BANKS—3.0%		
Wells Fargo & Co., 3.30%, 9/9/2024	2,000,000	**2,099,908**
INDUSTRIAL CONGLOMERATES—3.2%		
General Electric Co., 6.00%, 8/7/2019	2,000,000	**2,292,028**
INTEGRATED OIL & GAS—1.6%		
Total Capital SA, 4.45%, 6/24/2020	1,000,000	**1,109,752**
INTEGRATED TELECOMMUNICATION SERVICES—2.2%		
Verizon Communications, Inc., 5.15%, 9/15/2023	1,300,000	**1,516,332**
IT CONSULTING & OTHER SERVICES—2.9%		
International Business Machines Corp., 7.00%, 10/30/2025	1,525,000	**2,075,610**
OTHER DIVERSIFIED FINANCIAL SERVICES—2.3%		
JPMorgan Chase & Co., 4.35%, 8/15/2021	1,500,000	**1,651,344**
PACKAGED FOODS & MEATS—2.9%		
Campbell Soup Co., 2.50%, 8/2/2022	2,000,000	**2,033,950**
SEMICONDUCTORS—2.4%		
Altera Corp., 4.10%, 11/15/2023	1,500,000	**1,706,838**
TOTAL CORPORATE BONDS (Cost $18,793,945)		**19,626,227**
Total Investments (Cost $56,583,926)[b]	96.0%	**67,800,402**
Other Assets in Excess of Liabilities	4.0%	**2,852,397**
NET ASSETS	100.0%	$ **70,652,799**

\# *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 1.6% of the net assets of the Portfolio.*

(b) *At June 30, 2016, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $56,421,979, amounted to $11,378,423 which consisted of aggregate gross unrealized appreciation of $12,256,648 and aggregate gross unrealized depreciation of $878,225.*

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Assets and Liabilities June 30, 2016 (Unaudited)

		Alger Balanced Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedules of investments	$	67,800,402
Cash and cash equivalents		2,649,755
Receivable for shares of beneficial interest sold		13,701
Dividends and interest receivable		291,419
Prepaid expenses		12,596
Total Assets		70,767,873
LIABILITIES:		
Payable for shares of beneficial interest redeemed		22,371
Accrued investment advisory fees		40,860
Accrued transfer agent fees		2,856
Accrued administrative fees		1,583
Accrued shareholder administrative fees		575
Accrued other expenses		46,829
Total Liabilities		115,074
NET ASSETS	**$**	**70,652,799**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		64,332,319
Undistributed net investment income		2,053,235
Undistributed net realized gain (accumulated realized loss)		(6,949,232)
Net unrealized appreciation on investments		11,216,477
NET ASSETS	**$**	**70,652,799**
* Identified cost	$	56,583,926

See Notes to Financial Statements.

		Alger Balanced Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	70,652,799
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		4,742,938
NET ASSET VALUE PER SHARE:		
Class I-2	$	14.90

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Operations for the six months ended June 30, 2016 (Unaudited)

		Alger Balanced Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	720,226
Interest		297,631
Total Income		1,017,857
EXPENSES:		
Advisory fees — Note 3(a)		246,746
Shareholder administrative fees — Note 3(f)		3,475
Administration fees — Note 3(b)		9,557
Custodian fees		20,834
Interest expenses		366
Transfer agent fees and expenses — Note 3(f)		6,494
Printing fees		14,250
Professional fees		20,132
Registration fees		9,499
Trustee fees — Note 3(g)		1,401
Fund accounting fees		4,043
Miscellaneous		3,946
Total Expenses		340,743
NET INVESTMENT INCOME		677,114
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY:		
Net realized gain on investments and purchased options		411,364
Net change in unrealized appreciation on investments, options and foreign currency		1,096,926
Net realized and unrealized gain on investments, options, and foreign currency		1,508,290
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**2,185,404**
* Foreign withholding taxes	$	9,565

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, 2016	For the Year Ended December 31, 2015
Net investment income	$ 677,114	$ 1,785,227
Net realized gain on investments, options and foreign currency	411,364	4,063,646
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency	1,096,926	(4,357,230)
Net increase in net assets resulting from operations	2,185,404	1,491,643
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	—	(1,581,487)
Total dividends and distributions to shareholders	—	(1,581,487)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	(6,882,670)	(21,122,958)
Net decrease from shares of beneficial interest transactions — Note 6(a)	(6,882,670)	(21,122,958)
Total decrease	(4,697,266)	(21,212,802)
Net Assets:		
Beginning of period	75,350,065	96,562,867
END OF PERIOD	**$ 70,652,799**	**$ 75,350,065**
Undistributed net investment income	$ 2,053,235	$ 1,376,121

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 6/30/2016[i]	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011
Net asset value, beginning of period	$ 14.39	$ 14.48	$ 13.49	$ 11.84	$ 11.31	$ 11.61
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income[ii]	0.14	0.29	0.29	0.20	0.13	0.14
Net realized and unrealized gain (loss) on investments	0.37	(0.08)	0.98	1.61	0.56	(0.12)
Total from investment operations	0.51	0.21	1.27	1.81	0.69	0.02
Dividends from net investment income	–	(0.30)	(0.28)	(0.16)	(0.16)	(0.32)
Net asset value, end of period	$ 14.90	$ 14.39	$ 14.48	$ 13.49	$ 11.84	$ 11.31
Total return	3.54%	1.47%	9.43%	15.28%	6.23%	0.03%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 70,653	$ 75,350	$ 96,563	$ 95,577	$ 93,129	$ 101,811
Ratio of gross expenses to average net assets	0.99%	0.92%	0.92%	0.95%	0.95%	0.93%
Ratio of expense reimbursements to average net assets	–	–	–	–	–	(0.04)%
Ratio of net expenses to average net assets	0.99%	0.92%	0.92%	0.95%	0.95%	0.89%
Ratio of net investment income (loss) to average net assets	1.95%	1.97%	2.09%	1.56%	1.13%	1.20%
Portfolio turnover rate	2.48%	9.64%	24.89%	71.66%	122.50%	102.79%

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 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 Balanced Portfolio (the "Portfolio"). The Portfolio's investment objective is current income and long-term capital appreciation which it seeks to achieve through investing in equity and fixed-income securities. Shares of the Portfolio are available to investment vehicles for variable annuity contracts and variable life insurance policies offered by separate accounts of life insurance companies, as well as qualified pension and retirement plans.

The Portfolio offers Class I-2 shares.

NOTE 2 — Significant Accounting Policies:

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

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 advisor, pursuant to policies established by the Board, believes to be the fair value of these securities as of the close of the NYSE. The Portfolio may also fair value securities in other situations, for example, when a particular foreign market is closed but the Portfolio is open.

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

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

The Portfolio's valuation techniques are 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 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 generally 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, 2 and 3 are recognized at the end of 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 reflect 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 Fund Securities: The Portfolio may lend its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets, as defined in its prospectuses. The Portfolio earns fees on the securities loaned, which are included in interest income in the accompanying Statement of Operations. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash or securities that are maintained with the Custodian in an amount equal to at least 102 percent of the current market value of U.S. loaned securities or 105 percent for non-U.S. loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio. Any required additional collateral is delivered to the Custodian and any excess collateral is returned to the borrower on the next business day. In the event the borrower fails to return the loaned securities when due, the Portfolio may take the collateral to replace the securities. If the value of the collateral is less than the purchase cost of replacement securities, the Custodian shall be responsible for any shortfall, but only to the extent that the shortfall is not due to any diminution in collateral value, as defined in the securities lending agreement. The Portfolio is required to maintain the collateral in a segregated account and determine its value each day until the loaned securities are returned. Cash collateral may be invested as determined by the Portfolio. Collateral is returned to the borrower upon settlement of the loan.

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

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

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 2012-2015. 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. All such adjustments are of normal recurring nature.

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

(a) Investment Advisory Fees: The fees incurred by the Portfolio, pursuant to the provisions of the Fund's Investment Advisory Agreement with Fred Alger Management, Inc. ("Alger Management" or the "Manager"), 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, 2016, is set forth below under the heading "Actual Rate."

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

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

(b) Administration Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's 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, 2016, the Portfolio paid Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor or Alger Inc.") and an affiliate of Alger Management, $972, 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, 2016.

During the six months ended June 30, 2016, the Portfolio incurred interest expense of $162 in connection with interfund loans which is included in interest expense in the accompanying Statement of Operations.

(e) Other Transactions With Affiliates: Certain 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, 2016 through February 29, 2016, each trustee who is not affiliated with Alger Management or its affiliates (each, an "Independent Trustee") received a fee of $25,875 for each board 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 received 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 received a fee of $2,500 for each Audit Committee meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex.

Effective March 1, 2016, each Independent Trustee receives a fee of $27,250 for each board meeting attended, to a maximum of $109,000 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 additional compensation of $26,000 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 Audit

Committee meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex.

(h) Interfund Trades: The Portfolio may engage in purchase and sale transactions with funds that have a common investment advisor. For the six months ended June 30, 2016, the Portfolio had no such purchases and sales.

NOTE 4 — Securities Transactions:

Purchases and sales of securities, other than U.S. Government securities and short-term securities, for the six months ended June 30, 2016, were as follows:

	PURCHASES	SALES
Alger Balanced Portfolio	$1,695,305	$7,564,437

Transactions in foreign securities may involve certain considerations and risks not typically associated with those of U.S. companies because of, among other factors, the level of governmental supervision and regulation of foreign security markets, and the possibility of political or economic instability. Additional risks associated with investing in the emerging markets include increased volatility, limited liquidity, and less stringent regulatory and legal system.

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, 2016, the Portfolio had the following borrowings from its custodian and other funds.

	AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
Alger Balanced Portfolio	$ 35,955	1.63%

The highest amount borrowed from its custodian and other funds during the six months ended June 30, 2016, for the Portfolio was as follows:

	HIGHEST BORROWING
Alger Balanced Portfolio	$ 712,976

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, 2016 and the year ended December 31, 2015, transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2016		FOR THE YEAR ENDED DECEMBER 31, 2015	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Balanced Portfolio				
Class I-2:				
Shares sold	178,899	$ 2,575,559	453,159	$ 6,646,901
Dividends reinvested	—	—	109,219	1,581,486
Shares redeemed	(670,789)	(9,458,229)	(1,998,342)	(29,351,345)
Net decrease	**(491,890)**	**$ (6,882,670)**	**(1,435,964)**	**$ (21,122,958)**

NOTE 7 — Income Tax Information:

At December 31, 2015, 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	$ 7,522,543
Total	7,522,543

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, 2015, the Portfolio utilized $3,864,971 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 partnership 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, 2016, 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	$ 6,009,470	$ 6,009,470	—	—
Consumer Staples	6,153,092	6,153,092	—	—
Energy	2,980,884	2,980,884	—	—
Financials	5,773,228	5,773,228	—	—
Health Care	7,394,188	7,394,188	—	—
Industrials	5,586,871	5,586,871	—	—
Information Technology	8,529,672	8,529,672	—	—
Materials	659,181	659,181	—	—
Telecommunication Services	1,921,749	1,921,749	—	—
Utilities	376,266	376,266	—	—
TOTAL COMMON STOCKS	**$ 45,384,601**	**$ 45,384,601**	**—**	**—**
CONVERTIBLE PREFERRED STOCKS				
Health Care	333,448	333,448	—	—
CORPORATE BONDS				
Consumer Staples	3,189,921	—	3,189,921	—
Energy	1,109,752	—	1,109,752	—
Financials	3,751,252	—	3,751,252	—
Industrials	4,119,712	—	4,119,712	—
Information Technology	5,939,258	—	5,939,258	—
Telecommunication Services	1,516,332	—	1,516,332	—
TOTAL CORPORATE BONDS	**$ 19,626,227**	**—**	**$ 19,626,227**	**—**
MASTER LIMITED PARTNERSHIP				
Energy	245,836	245,836	—	—
Financials	625,770	625,770	—	—
TOTAL MASTER LIMITED PARTNERSHIP	**$ 871,606**	**$ 871,606**	**—**	**—**
REAL ESTATE INVESTMENT TRUST				
Financials	1,584,520	1,584,520	—	—
TOTAL INVESTMENTS IN SECURITIES	**$ 67,800,402**	**$ 48,174,175**	**$ 19,626,227**	**—**

On June 30, 2016 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, 2016, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash, Foreign cash and Cash equivalents:				
Alger Balanced Portfolio	$ 2,649,755	—	$ 2,649,755	—

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.

There were no open derivative instruments as of June 30, 2016.

NOTE 10 — Risks:

In the normal course of business, the Portfolio invests in securities and enters into transactions where risks exist due to fluctuations in the market (market risk) or failure of the issuer of a security to meet all its obligations (issuer credit risk). The value of securities held by the Portfolio may decline in response to certain events, including those directly involving the issuers whose securities are owned by the Portfolio; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency and interest rate and price fluctuations. Similar to issuer credit risk, the Portfolio may be exposed to counterparty credit risk, or the risk that an entity with which the Portfolio has unsettled or open transactions may fail to or be unable to perform on its commitments. The Portfolio manages counterparty credit risk by entering into transactions only with counterparties that it believes have the financial resources to honor their obligations and by monitoring the financial stability of those counterparties. Financial assets, which potentially expose the Portfolio to market, issuer and counterparty credit risks, consist principally of financial instruments and receivables due from counterparties. The extent of the Portfolio's exposure to market, issuer and counterparty credit risks with respect to these financial assets is generally approximated by its value recorded in the Statement of Assets and Liabilities, less any collateral held by the Portfolio.

NOTE 11 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to June 30, 2016 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, 2016 and ending June 30, 2016.

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, 2016	Ending Account Value June 30, 2016	Expenses Paid During the Six Months Ended June 30, 2016[(a)]	Annualized Expense Ratio For the Six Months Ended June 30, 2016[(b)]
Alger Balanced Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,035.44	$ 4.96	0.99%
	Hypothetical[(c)]	1,000.00	1,019.99	4.92	0.99

(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 182/366 (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 Portfolio's securities. These policies and procedures recognize that there may be legitimate business reasons for holdings to be disclosed and seek to balance those interests to protect the proprietary nature of the trading strategies and implementation thereof by the Portfolio.

Generally, the policies prohibit the release of information concerning 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 Portfolio's Forms N-Q are available online on the SEC's website at www.sec.gov or may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.

In addition, the Portfolio makes publicly available its month-end top 10 holdings with a 10 day lag and its month-end full portfolio with a 60 day lag on its 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 Portfolio's 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 the Portfolio's holdings information has been disclosed and the purpose for such disclosure, and it considers whether or not the release of information to such third parties is in the best interest of the Portfolio and its shareholders.

In addition to material the Portfolio routinely 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 Portfolio's holdings versus its peers or an index (such as P/E (or price to book) ratio EPS forecasts, alpha, beta, capture ratio, standard deviation, Sharpe ratio, information ratio, R-squared, and market cap analysis), security specific impact on overall portfolio performance, return on equity statistics, geographic analysis, number of holdings, 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 Portfolio 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

Custodian

Brown Brothers Harriman & Company
50 Post Office Square
Boston, MA 02110

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 the Fund's investment policies, fees and expenses as well as other pertinent information.

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THE ALGER PORTFOLIOS

Alger Capital Appreciation Portfolio

SEMI-ANNUAL REPORT

JUNE 30, 2016 (UNAUDITED)

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ALGER CAPITAL APPRECIATION PORTFOLIO

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Dear Shareholders,

The Appeal of Growth Equities Strengthens as Investor Rush to Bond-Like Equities

Gary Larson's quirky cartoon series, "The Far Side," draws chuckles by having animals exhibit human-like behavior. In one popular cartoon, a massive bison stampede extends to the horizon. One insightful bison quips to a neighboring beast, "As if we all knew where we're going." As demonstrated during the six-month reporting period ended June 30, investors can also stampede without apparent direction. Indeed, many investors flocked to defensive stocks, or stocks that offer high dividend yields but little or no potential for earnings growth. In doing so, we believe investors have entered perilous grounds. Indeed, in our opinion, investors who have focused on defensive stocks are likely to miss the potentially strong returns of growth equities. The concern is particularly timely with corporate fundamentals, equity valuations, and large-scale global trends all pointing to strong potential for growth equities to outperform in the foreseeable future.

The Rush to Bond-Like Equities

During the reporting period, low and declining interest rates drove investors to snatch up bond-like equities. As of mid-year, approximately $11.7 trillion in global government debt has been trading with negative yields, according to Fitch. The low yields have caused many investors to embrace U.S. debt, which in turn has driven the yield of the 10-Year Treasury bond to near-record lows. Yield hungry investors, therefore, have turned to equities of companies that pay attractive dividends, even though many of those companies are unlikely, in our view, to substantially grow their earnings. The results of this behavior are striking. Within the S&P 500 Index, the defensive Telecommunication Services and Utilities sectors returned 24.8% and 23.4%, respectively, compared to the 3.8% overall return of the index. The defensive Consumer Staples sector also outperformed with a 10.5% return. Conversely, the Information Technology and Consumer Discretionary sectors, both of which are characterized as having innovative and dynamic companies with high earnings growth, generated -0.3% and 0.7% returns, respectively.

We believe market volatility following the United Kingdom vote to leave the European Union (E.U.), or Brexit, may have also driven investors to favor defensive stocks. Some economists have argued that Brexit could create uncertainty over trade agreements in Europe, which could reduce confidence in the British pound and hinder investments. If economic growth weakens in Europe, central banks would respond with additional stimulus, which in turn could devalue currencies across the Atlantic relative to the U.S. dollar. A stronger dollar could challenge U.S. exporters by making their products more expensive for businesses and consumers abroad. At least initially, it appears that investors were also opposed to Brexit with the June 24 announcement that the U.K. had decided to leave the E.U. sparking a short but significant equity selloff. From June 24 until the close of trading on June 27, the S&P 500 Index declined 4.1%. In past commentaries, we have urged investors to ride out volatility and to use market dips to buy attractively priced equities. In the case of Brexit, such a strategy would have generated strong gains with the S&P 500 Index quickly reversing direction and generated a 4.95% return in the final days of June.

A Once-in-a-20-Year Event

Rather than continue to select stocks solely on the appeal of dividend yields, we urge investors to compare the potential performance of defensive stocks and growth equities. We believe such a comparison, which should include an analysis of valuations and other factors, points to growth stocks having strong potential for outperforming in the foreseeable future. In assessing valuations, it is helpful to compare price-to-earnings ratios (P/E ratios) to 20-year medians. As of June 30, P/E ratios for the defensive Consumer Staples and Utilities sectors were 27% and 31% higher than each sector's 20-year median. Yet, P/E ratios for Consumer Discretionary, Health Care, and Information Technology sectors, which typically have the most vibrant and fastest growing companies, ranged from 7% to 10% below their respective 20-year medians. A difference of that magnitude between defensive and growth sectors hasn't occurred in more than 20 years. From a historical perspective, defensive stocks are clearly expensive, while growth stocks are inexpensive. In a similar manner, large cap growth stocks as represented by the Russell 1000 Growth Index have traditionally traded at an approximately 40% premium to their value counterparts, but as of June 30 were trading at only a 16% premium. In the past, low P/E ratios have typically indicated strong potential for stocks to outperform and we believe the current growth stock valuations are no exception.

Over the long term, equity returns are driven by corporate fundamentals, including earnings and revenue growth. While dividends play a role in the total return an investor should expect from equities, it is a mistake, in our view, to focus solely, or overly, on the dividend yield of a stock itself. It is, after all, a company's fundamental success with growing its sales and profits that ultimately delivers the cash flow to support dividends, dividend growth, and valuations. From that perspective, growth equities are particularly appealing in our view. Earnings per share growth for the Consumer Discretionary sector is expected to be twice the rate of Consumer Staples and more than three times the rate of Utilities during the next five years, according to consensus estimates from FactSet Research Systems. Earnings growth for Health Care and Information Technology sectors is also expected to substantially outpace Consumer Staples and Utilities. Even assuming defensive stocks stay richly valued relative to growth stocks and P/E ratios don't change, the disparity in earnings growth should cause growth stocks to outperform.

Investors should also assess the impact upon dividend-paying stocks of a potential increase in interest rates. Much like fixed-income securities, these bond-like equities are very interest rate sensitive. Even a small change in interest rates or inflation could hurt the performance of bond-like stocks, especially those trading at high valuations with poor growth prospects or leveraged balance sheets.

Brexit Fears, Bond-like Equities, and Fundamental Research

During the reporting period, our research strengthened our belief that rushing to bond-like equities and taking an overly cautious approach regarding Brexit are significant mistakes. We based that conclusion on our belief that U.S. corporations have strong potential for growing their revenues by offering competitive products both abroad and domestically. From a broad perspective, the expected earnings growth rate for the S&P 500 Index has declined, in part due to concerns over weak global economic growth, a headwind of a strong U.S. dollar on exports, and the impact of low oil prices upon energy companies despite the commodity appearing to have bottomed in February. Yet, S&P 500 Index ex-Energy earnings are expected to grow 3% to 4% this year. We caution investors, however, to avoid reaching a conclusion based on overall expectations for U.S. corporations. Rather, investors should assess the possibilities for leading companies to grow their earnings at rates that defy the overall economic environment. Indeed, indicators of consumer spending like ecommerce, travel, leisure, automotive, and home durables are quite healthy, despite the weakness reported in headlines about department store sales and the sales of other "old" economy retailers. Changing patterns of consumer preferences – largely based, in our view, on both ecommerce technology and on the rise of younger generations of Americans (the "X" and "Y" generations) as the Baby Boomers increasingly retire – is a large phenomenon that creates challenges for companies that haven't adapted to the "new" marketplace and great opportunities for those that have helped define it. Amazon.com, Inc., Netflix, Inc., and Alphabet, Inc. (formerly Google) are all doing quite well in this new American marketplace, while the landscape, especially in retail, is littered with companies, once good or even great, but today struggling to adapt their business models to the new and obvious reality.

Reasons for Optimism

We maintain that the U.S. will continue to be an economic leader. June marked the 76th consecutive month of private-sector job growth in the U.S., which is an unprecedented accomplishment, and during the first five months of this year, the average hourly earnings for private sector employees increased at a 3.2% annual rate. In addition to steady job creation, the nation's 4.9% unemployment rate implies that the job market is healthy. We continue to believe that low oil prices combined with low inflation and the Federal Reserve's cautious approach to raising interest rates will support the country's economy.

Corporate America is also strong with S&P 500 Index companies ex-financials holding $1.45 trillion in cash in the first quarter, which is the highest level in at least 10 years, according to FactSet. S&P 500 Index companies have also repurchased $588 billion in stock for the 12-month period ending 3/31/16, according to Standard & Poor's.

We urge investors to carefully assess the appeal of growth equities and to evaluate the role of bond-like equities in their investment strategies. We are in an era of rapid and dynamic change. New technologies such as the internet, smartphones, eBooks, and social media have reached 50% market penetration in a fraction of the time that older innovations such as washing machines, dishwashers, and landline telephones required. Medical innovation in orthopedic, cardiac, and cancer treatments (to name only a few) has advanced and will continue to advance in ways that were unimaginable only a generation or so ago. We think every prudent, long-term investor should have a portfolio "overweight" in the industries, companies, and trends that are changing nearly every aspect of modern-day life.

Portfolio Matters

The Alger Capital Appreciation Portfolio returned -3.17% for the fiscal six-month period ended June 30, 2016, compared to the 1.36% 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 Information Technology and the largest sector underweight was Consumer Staples. The Energy sector was a neutral contributor to performance while other sectors detracted from results.

Among the most important relative contributors were Facebook, Inc., Class A; Honeywell International, Inc.; Apple, Inc.; and Edwards Lifesciences Corp. Also contributing to performance was Newell Brands, Inc., previously Newell Rubbermaid. Newell is a leading global consumer-goods company with well-known brands including Paper Mate, Sharpie, Elmer's, Coleman, Marmot, Sunbeam, and Rubbermaid. Newell had previously announced that it was acquiring Jarden Corp., which provides canning products, arts and craft supplies, Bicycle branded playing cards, and other home entertainment products. We believe shares of Newell performed strongly in response to growing investor confidence in the company's integration of Jarden.

Conversely, detracting from relative performance were Vertex Pharmaceuticals, Inc.; Alphabet, Inc. Cl. C; Delphi Automotive PLC; and Norwegian Cruise Line Holdings Ltd. Shares of Allergan PLC also detracted from performance. The company offers products for eye care, neurosciences, dermatology, and aesthetics. The shares underperformed in large part due to a proposed merger of Allergan and Pfizer Inc. being blocked by regulators. In addition, the industry is laboring under concerns over accounting practices and other issues at pharmaceutical company Valeant Pharmaceuticals International, Inc. We believe Allergan's fundamentals are strong with the company generating healthy organic revenue growth, expanding margins, and strong free cash flow. In addition, Allergan's announcement of a significant share repurchase program underscores the company's conservative balance sheet and healthy free cash flow.

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

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

This report and the financial statements contained herein are submitted for the general information of shareholders of the 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 returns represent the fiscal six-month period return of Class I-2 shares. Returns include reinvestment of dividends and distributions.

The performance data quoted in these materials represent past performance, which is not an indication or guarantee of future results.

Standard performance results can be found on the following pages. The investment return and principal value of an investment in a Portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, visit us at www.alger.com, or call us at (800) 992-3863.

The views and opinions of the 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, 2016. 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. 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 the Portfolio's investment objective, risks, charges, and expenses. For a prospectus containing this and other information about the Alger Portfolios, call us at (800) 992-3863 or visit us at www.alger.com. Read it carefully before investing.

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

Definitions:

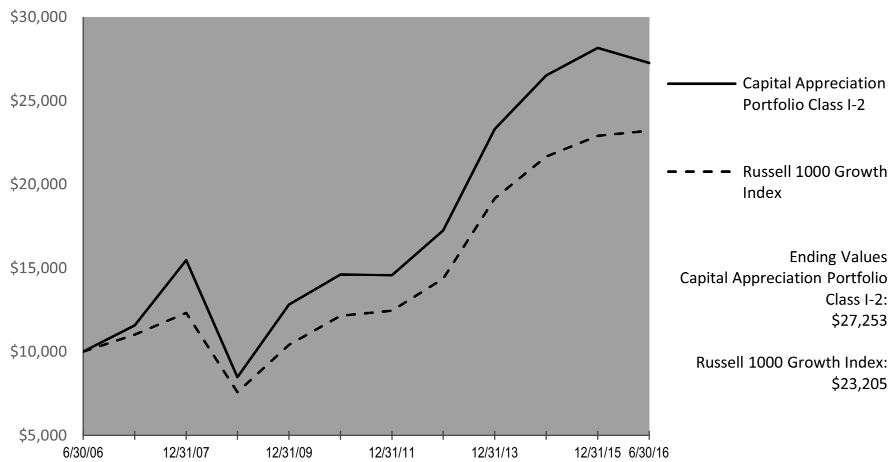
- The Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.
- The S&P 500 index is an index of large company stocks considered to be

representative of the U.S. stock market. Index performance does not reflect deduction for fees, expenses, or taxes. Investors cannot invest directly in any index

- FactSet provides computer-based financial data and analysis for financial professionals, including investment managers, hedge funds, and investment bankers.
- Fitch provides a variety of financial services, including credit ratings, data, research and educational programs.

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

— 10 years ended 6/30/16



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, 2016. 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 6/30/16

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 1/25/1995
Class I-2 (Inception 1/25/95)	(3.72)%	11.71%	10.55%	12.65%
Class S (Inception 5/1/02)[i]	(3.99)%	11.37%	10.23%	12.38%
Russell 1000 Growth Index	3.02%	12.35%	8.78%	8.71%

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, 2016 (Unaudited)

SECTORS/SECURITY TYPES	Alger Capital Appreciation Portfolio
Consumer Discretionary	18.4%
Consumer Staples	6.4
Energy	1.9
Financials	3.0
Health Care	19.1
Industrials	9.9
Information Technology	34.1
Materials	0.7
Telecommunication Services	1.9
Total Equity Securities	95.4
Short-Term Investments and Net Other Assets	4.6
	100.0%

† *Based on net assets for the Portfolio.*

COMMON STOCKS—92.9%	SHARES	VALUE
ADVERTISING—0.0%		
Choicestream, Inc.*,@,(a)	23,166	$ **7,413**
AEROSPACE & DEFENSE—4.5%		
Honeywell International, Inc.	179,939	20,930,504
Lockheed Martin Corp.	11,674	2,897,137
TransDigm Group, Inc.*	2,300	606,487
		24,434,128
AIRLINES—1.0%		
Delta Air Lines, Inc.	86,500	3,151,195
Southwest Airlines Co	61,700	2,419,257
		5,570,452
ALTERNATIVE CARRIERS—0.6%		
Level 3 Communications, Inc.*	67,850	**3,493,597**
APPAREL ACCESSORIES & LUXURY GOODS—0.5%		
Hanesbrands, Inc.	46,900	1,178,597
PVH Corp.	15,400	1,451,142
		2,629,739
APPAREL RETAIL—0.3%		
The TJX Cos., Inc.	21,800	**1,683,614**
APPLICATION SOFTWARE—2.2%		
Adobe Systems, Inc.*	55,077	5,275,826
salesforce.com, inc.*	88,275	7,009,918
		12,285,744
AUTO PARTS & EQUIPMENT—1.2%		
Delphi Automotive PLC.	91,460	5,725,396
WABCO Holdings, Inc.*	10,600	970,642
		6,696,038
AUTOMOBILE MANUFACTURERS—0.5%		
Tesla Motors, Inc.*	12,600	**2,674,728**
BIOTECHNOLOGY—4.7%		
ACADIA Pharmaceuticals, Inc.*	57,500	1,866,450
Biogen, Inc.*	18,281	4,420,711
BioMarin Pharmaceutical, Inc.*	36,252	2,820,406
Celgene Corp.*	58,411	5,761,077
Gilead Sciences, Inc.	62,128	5,182,718
Incyte Corp.*	14,621	1,169,387
Vertex Pharmaceuticals, Inc.*	52,942	4,554,071
		25,774,820
BREWERS—1.6%		
Molson Coors Brewing Co., Cl. B	83,986	**8,493,504**
BROADCASTING—1.5%		
CBS Corp., Cl. B	151,800	**8,263,992**
BUILDING PRODUCTS—0.2%		
Fortune Brands Home & Security, Inc.	22,094	**1,280,789**
CABLE & SATELLITE—2.0%		
Comcast Corporation, Cl. A	166,704	**10,867,434**
COMMUNICATIONS EQUIPMENT—0.5%		
Palo Alto Networks, Inc.*	20,566	**2,522,214**

COMMON STOCKS—(CONT.)	SHARES	VALUE
DATA PROCESSING & OUTSOURCED SERVICES—3.6%		
Sabre Corp.	101,000	$ 2,705,790
Visa, Inc., Cl. A	230,115	17,067,630
		19,773,420
DRUG RETAIL—0.7%		
CVS Caremark Corp.	42,503	**4,069,237**
ELECTRICAL COMPONENTS & EQUIPMENT—0.3%		
Eaton Corp., PLC.	31,200	**1,863,576**
ENVIRONMENTAL & FACILITIES SERVICES—0.6%		
Stericycle, Inc.*	30,200	**3,144,424**
FERTILIZERS & AGRICULTURAL CHEMICALS—0.2%		
Monsanto Co.	10,400	**1,075,464**
GENERAL MERCHANDISE STORES—0.8%		
Dollar General Corp.	20,537	1,930,478
Dollar Tree, Inc.*	28,760	2,710,342
		4,640,820
HEALTH CARE EQUIPMENT—3.4%		
Boston Scientific Corp.*	125,400	2,930,598
DexCom, Inc.*	37,800	2,998,674
Edwards Lifesciences Corp.*	45,900	4,577,607
Medtronic PLC.	41,100	3,566,247
STERIS PLC.	41,100	2,825,625
Stryker Corp.	15,100	1,809,433
		18,708,184
HEALTH CARE FACILITIES—1.0%		
Acadia Healthcare Co., Inc.*	7,100	393,340
Amsurg Corp.*	33,800	2,620,852
HCA Holdings, Inc.*	28,940	2,228,669
		5,242,861
HOME ENTERTAINMENT SOFTWARE—1.4%		
Activision Blizzard, Inc.	71,000	2,813,730
Electronic Arts, Inc.*	64,400	4,878,944
		7,692,674
HOME IMPROVEMENT RETAIL—1.2%		
Lowe's Companies, Inc.	26,233	2,076,867
The Home Depot, Inc.	35,000	4,469,150
		6,546,017
HOTELS RESORTS & CRUISE LINES—1.0%		
Norwegian Cruise Line Holdings Ltd.*	78,800	3,139,392
Royal Caribbean Cruises Ltd.	33,700	2,262,955
		5,402,347
HOUSEWARES & SPECIALTIES—1.8%		
Newell Brands, Inc.	206,193	**10,014,794**
HYPERMARKETS & SUPER CENTERS—0.6%		
Costco Wholesale Corp.	19,800	**3,109,392**
INDUSTRIAL CONGLOMERATES—0.8%		
3M Co.	6,800	1,190,816
General Electric Co.	94,114	2,962,709
		4,153,525

COMMON STOCKS—(CONT.)	SHARES	VALUE
INTEGRATED OIL & GAS—0.4%		
TOTAL SA#	42,200	**$ 2,029,820**
INTEGRATED TELECOMMUNICATION SERVICES—1.3%		
AT&T, Inc.	85,200	3,681,492
Verizon Communications, Inc.	64,500	3,601,680
		7,283,172
INTERNET RETAIL—5.1%		
Amazon.com, Inc.*	38,087	27,255,819
NetFlix, Inc.*	9,990	913,885
		28,169,704
INTERNET SOFTWARE & SERVICES—13.7%		
Alibaba Group Holding Ltd.#*	47,300	3,761,769
Alphabet, Inc., Cl. C*	54,237	37,537,428
comScore, Inc.*	27,800	663,864
Facebook, Inc., Cl. A*	214,801	24,547,458
Match Group, Inc.*	58,300	878,873
Palantir Technologies, Inc., Cl. A*,@	41,286	454,146
Yahoo! Inc.*	199,640	7,498,478
		75,342,016
INVESTMENT BANKING & BROKERAGE—0.4%		
Morgan Stanley	93,812	**2,437,236**
LEISURE PRODUCTS—0.6%		
Coach, Inc.	74,100	**3,018,834**
LIFE SCIENCES TOOLS & SERVICES—1.9%		
Thermo Fisher Scientific, Inc.	71,765	**10,603,996**
MANAGED HEALTH CARE—3.2%		
Aetna, Inc.	27,500	3,358,575
Humana, Inc.	7,500	1,349,100
UnitedHealth Group, Inc.	89,577	12,648,272
		17,355,947
MOVIES & ENTERTAINMENT—0.3%		
Time Warner, Inc.	24,900	**1,831,146**
OIL & GAS EQUIPMENT & SERVICES—0.6%		
Halliburton Company	55,700	2,522,653
Weatherford International PLC.*	167,900	931,845
		3,454,498
OIL & GAS EXPLORATION & PRODUCTION—0.9%		
Anadarko Petroleum Corp.	53,500	2,848,875
EOG Resources, Inc.	17,100	1,426,482
Pioneer Natural Resources Co.	2,900	438,509
		4,713,866
OTHER DIVERSIFIED FINANCIAL SERVICES—0.4%		
Bank of America Corp.	176,609	**2,343,601**
PHARMACEUTICALS—4.8%		
Allergan PLC.*	63,373	14,644,867
Bristol-Myers Squibb Co.	126,351	9,293,116
Eli Lilly & Co.	31,500	2,480,625
		26,418,608

COMMON STOCKS—(CONT.)	SHARES	VALUE
RAILROADS—0.3%		
Union Pacific Corp.	19,610	**$ 1,710,973**
RESEARCH & CONSULTING SERVICES—0.6%		
Verisk Analytics, Inc., Cl. A*	37,300	**3,024,284**
RESTAURANTS—0.8%		
Starbucks Corp.	76,415	**4,364,825**
SECURITY & ALARM SERVICES—0.5%		
Tyco International PLC.	66,943	**2,851,772**
SEMICONDUCTOR EQUIPMENT—0.5%		
ASML Holding NV#	28,500	**2,827,485**
SEMICONDUCTORS—2.4%		
Broadcom Ltd.	58,402	9,075,671
NXP Semiconductors NV*	54,754	4,289,428
		13,365,099
SOFT DRINKS—1.8%		
PepsiCo, Inc.	92,901	**9,841,932**
SPECIALIZED CONSUMER SERVICES—0.6%		
ServiceMaster Global Holdings, Inc.*	79,645	**3,169,871**
SPECIALIZED FINANCE—0.2%		
S&P Global, Inc.	10,355	**1,110,677**
SPECIALTY CHEMICALS—0.5%		
The Sherwin-Williams Co.	9,000	**2,643,030**
SPECIALTY STORES—0.4%		
Signet Jewelers Ltd.	27,459	**2,262,896**
SYSTEMS SOFTWARE—5.1%		
Microsoft Corp.	439,881	22,508,711
Red Hat, Inc.*	20,900	1,517,340
ServiceNow, Inc.*	49,589	3,292,709
TubeMogul, Inc.*	42,100	500,990
		27,819,750
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—4.3%		
Apple, Inc.	234,719	22,439,136
Western Digital Corp.	25,000	1,181,500
		23,620,636
TOBACCO—1.7%		
Altria Group, Inc.	79,100	5,454,736
Philip Morris International, Inc.	36,000	3,661,920
		9,116,656
TRADING COMPANIES & DISTRIBUTORS—0.9%		
HD Supply Holdings, Inc.*	142,097	**4,947,818**
TOTAL COMMON STOCKS		
(Cost $469,910,211)		**509,795,089**

PREFERRED STOCKS—0.5%	SHARES	VALUE
ADVERTISING—0.0%		
Choicestream, Inc., Cl. A*,@,(a)	199,768	63,926
Choicestream, Inc., Cl. B*,@,(a)	445,303	142,497
		206,423
INTERNET SOFTWARE & SERVICES—0.4%		
Palantir Technologies, Inc., Cl. B*,@	168,373	1,852,103

PREFERRED STOCKS—(CONT.)	SHARES	VALUE
INTERNET SOFTWARE & SERVICES—(CONT.)		
Palantir Technologies, Inc., Cl. D*,@	21,936	$ 241,296
		2,093,399
PHARMACEUTICALS—0.1%		
Intarcia Therapeutics, Inc.*,@	20,889	**690,381**
TOTAL PREFERRED STOCKS		
(Cost $2,360,207)		**2,990,203**

MASTER LIMITED PARTNERSHIP—0.7%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—0.7%		
The Blackstone Group LP.	157,564	**3,866,621**
(Cost $5,115,096)		**3,866,621**

REAL ESTATE INVESTMENT TRUST—1.3%	SHARES	VALUE
MORTGAGE—0.7%		
Blackstone Mortgage Trust, Inc., Cl. A	143,140	**3,960,684**
SPECIALIZED—0.6%		
Crown Castle International Corp.	31,000	**3,144,330**
TOTAL REAL ESTATE INVESTMENT TRUST		
(Cost $6,901,124)		**7,105,014**
Total Investments		
(Cost $484,286,638)(b)	95.4%	**523,756,927**
Other Assets in Excess of Liabilities	4.6%	**25,063,058**
NET ASSETS	100.0%	**$ 548,819,985**

\# *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, 2016, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $493,670,366, amounted to $30,086,561 which consisted of aggregate gross unrealized appreciation of $54,180,644 and aggregate gross unrealized depreciation of $24,094,083.*

* *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	% of net assets (Acquisition Date)	Market Value	% of net assets as of 6/30/2016
Choicestream, Inc.	*03/14/14*	*$6,718*	*0.00%*	*$7,413*	*0.00%*
Choicestream, Inc., Cl. A	*2/17/13*	*159,751*	*0.03%*	*63,926*	*0.01%*
Choicestream, Inc., Cl. B	*07/10/14*	*267,182*	*0.05%*	*142,497*	*0.03%*
Intarcia Therapeutics, Inc.	*03/27/14*	*676,595*	*0.14%*	*690,381*	*0.13%*
Palantir Technologies, Inc., Cl. A	*10/07/14*	*268,648*	*0.05%*	*454,146*	*0.08%*
Palantir Technologies, Inc., Cl. B	*10/07/14*	*1,111,840*	*0.22%*	*1,852,103*	*0.34%*
Palantir Technologies, Inc., Cl. D	*10/14/14*	*144,839*	*0.31%*	*241,296*	*0.04%*
Total				$3,451,762	0.63%

See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Assets and Liabilities June 30, 2016 (Unaudited)

		Alger Capital Appreciation Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedules of investments	$	523,543,091
Investments in affiliated securities, at value (Identified cost below)** see accompanying schedules of investments		213,836
Cash and cash equivalents		21,959,322
Receivable for investment securities sold		9,486,310
Receivable for shares of beneficial interest sold		1,209,740
Dividends and interest receivable		349,242
Prepaid expenses		28,445
Total Assets		556,789,986
LIABILITIES:		
Payable for investment securities purchased		7,309,224
Payable for shares of beneficial interest redeemed		165,155
Accrued investment advisory fees		367,335
Accrued transfer agent fees		14,746
Accrued distribution fees		7,955
Accrued administrative fees		12,471
Accrued shareholder administrative fees		4,535
Accrued other expenses		88,580
Total Liabilities		7,970,001
NET ASSETS	**$**	**548,819,985**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		518,133,028
Undistributed net investment income		657,856
Undistributed net realized gain (accumulated realized loss)		(9,441,188)
Net unrealized appreciation on investments		39,470,289
NET ASSETS	**$**	**548,819,985**
* Identified cost	$	483,852,987
** Identified cost	$	433,651

See Notes to Financial Statements.

		Alger Capital Appreciation Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	510,488,630
Class S	$	38,331,355
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		7,820,991
Class S		611,137
NET ASSET VALUE PER SHARE:		
Class I-2	$	65.27
Class S	$	62.72

See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Operations for the six months ended June 30, 2016 (Unaudited)

		Alger Capital Appreciation Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	3,261,946
Interest		16,427
Total Income		3,278,373
EXPENSES:		
Advisory fees — Note 3(a)		2,189,510
Distribution fees — Note 3(c)		
Class S		46,973
Shareholder administrative fees — Note 3(f)		27,031
Administration fees — Note 3(b)		74,335
Custodian fees		45,464
Transfer agent fees and expenses — Note 3(f)		47,496
Printing fees		49,620
Professional fees		72,608
Registration fees		12,336
Trustee fees — Note 3(g)		10,993
Fund accounting fees		37,181
Miscellaneous		6,106
Total Expenses		2,619,653
NET INVESTMENT INCOME		658,720
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY:		
Net realized (loss) on investments and purchased options		(2,804,618)
Net realized (loss) on foreign currency transactions		(3,451)
Net change in unrealized (depreciation) on investments, options and foreign currency		(18,830,123)
Net realized and unrealized (loss) on investments, options, and foreign currency		(21,638,192)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**(20,979,472)**
* Foreign withholding taxes	$	12,666

See Notes to Financial Statements.

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

	Alger Capital Appreciation Portfolio	
	For the Six Months Ended June 30, 2016	For the Year Ended December 31, 2015
Net investment income	$ 658,720	$ 958,173
Net realized gain (loss) on investments, options and foreign currency	(2,808,069)	52,980,024
Net change in unrealized depreciation on investments, options and foreign currency	(18,830,123)	(19,848,292)
Net increase (decrease) in net assets resulting from operations	(20,979,472)	34,089,905
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	—	(468,677)
Net realized gains:		
Class I-2	—	(62,137,185)
Class S	—	(4,470,628)
Total dividends and distributions to shareholders	—	(67,076,490)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	(29,145,612)	90,356,282
Class S	(33,665)	14,498,723
Net increase (decrease) from shares of beneficial interest transactions — Note 6(a)	(29,179,277)	104,855,005
Total increase (decrease)	(50,158,749)	71,868,420
Net Assets:		
Beginning of period	598,978,734	527,110,314
END OF PERIOD	**$ 548,819,985**	**$ 598,978,734**
Undistributed net investment income (accumulated loss)	$ 657,856	$ (864)

See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class I-2					
	Six months ended 6/30/2016[i]	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011
Net asset value, beginning of period	$ 67.42	$ 71.35	$ 73.41	$ 60.81	$ 51.96	$ 52.16
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income[ii]	0.08	0.13	0.12	0.24	0.69	0.15
Net realized and unrealized gain (loss) on investments	(2.23)	4.37	10.04	20.99	8.80	(0.29)
Total from investment operations	(2.15)	4.50	10.16	21.23	9.49	(0.14)
Dividends from net investment income	–	(0.06)	(0.08)	(0.27)	(0.62)	(0.06)
Distributions from net realized gains	–	(8.37)	(12.14)	(8.36)	(0.02)	–
Net asset value, end of period	$ 65.27	$ 67.42	$ 71.35	$ 73.41	$ 60.81	$ 51.96
Total return	(3.17)%	6.19%	13.75%	35.19%	18.30%	(0.30)%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 510,489	$ 559,298	$ 499,123	$ 464,465	$ 348,152	$ 296,320
Ratio of gross expenses to average net assets	0.96%	0.93%	0.94%	0.96%	0.96%	0.97%
Ratio of expense reimbursements to average net assets	–	–	–	–	–	(0.03)%
Ratio of net expenses to average net assets	0.96%	0.93%	0.94%	0.96%	0.96%	0.94%
Ratio of net investment income (loss) to average net assets	0.26%	0.18%	0.16%	0.34%	1.18%	0.28%
Portfolio turnover rate	54.27%	142.01%[iii]	143.20%[iv]	117.15%	139.19%	156.27%

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.*

Alger Capital Appreciation Portfolio

	Class S					
	Six months ended 6/30/2016[i]	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011
Net asset value, beginning of period	$ 64.87	$ 69.08	$ 71.54	$ 59.46	$ 50.72	$ 51.04
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income (loss)[ii]	–	(0.06)	(0.08)	0.03	0.48	(0.04)
Net realized and unrealized gain (loss) on investments	(2.15)	4.22	9.76	20.49	8.60	(0.28)
Total from investment operations	(2.15)	4.16	9.68	20.52	9.08	(0.32)
Dividends from net investment income	–	–	–	(0.08)	(0.32)	–
Distributions from net realized gains	–	(8.37)	(12.14)	(8.36)	(0.02)	–
Net asset value, end of period	$ 62.72	$ 64.87	$ 69.08	$ 71.54	$ 59.46	$ 50.72
Total return	(3.31)%	5.91%	13.45%	34.79%	17.89%	(0.63)%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 38,331	$ 39,681	$ 27,987	$ 19,750	$ 13,692	$ 12,038
Ratio of gross expenses to average net assets	1.23%	1.20%	1.21%	1.26%	1.30%	1.31%
Ratio of expense reimbursements to average net assets	–	–	–	–	–	(0.03)%
Ratio of net expenses to average net assets	1.23%	1.20%	1.21%	1.26%	1.30%	1.28%
Ratio of net investment income (loss) to average net assets	–	(0.09)%	(0.11)%	0.04%	0.83%	(0.07)%
Portfolio turnover rate	54.27%	142.01%(iii)	143.20%(iv)	117.15%	139.19%	156.27%

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.*

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: 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 ("Board"). 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.

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 advisor, pursuant to policies established by the Board, believes to be the fair value of these securities as of the close of the NYSE. The Portfolio may also fair value securities in other situations, for example, when a particular foreign market is closed but the Portfolio is open.

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

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

The Portfolio's valuation techniques are 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 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 generally 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, 2 and 3 are recognized at the end of 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 reflect 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 Fund Securities: The Portfolio may lend its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets, as defined in its prospectuses. The Portfolio earns fees on the securities loaned, which are included in interest income in the accompanying Statement of Operations. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash or securities that are maintained with the Custodian in an amount equal to at least 102 percent of the current market value of U.S. loaned securities or 105 percent for non-U.S. loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio. Any required additional collateral is delivered to the Custodian and any excess collateral is returned to the borrower on the next business day. In the event the borrower fails to return the loaned securities when due, the Portfolio may take the collateral to replace the securities. If the value of the collateral is less than the purchase cost of replacement securities, the Custodian shall be responsible for any shortfall, but only to the extent that the shortfall is not due to any diminution in collateral value, as defined in the securities lending agreement. The Portfolio is required to maintain the collateral in a segregated account and determine its value each day until the loaned securities are returned. Cash collateral may be invested as determined by the Portfolio. Collateral is returned to the borrower upon settlement of the loan.

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

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

Each 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 2012-2015. 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. ("Alger Management" or the "Manager"), 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, 2016, is set forth below under the heading "Actual Rate."

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Actual Rate
Alger Capital Appreciation Portfolio[(a)]	0.810%	0.650%	0.600%	0.550%	0.450%	0.810%

[(a)] *Tier 1 rate is paid on assets up to $2 billion, Tier 2 rate is paid on assets between $2 and $3 billion, Tier 3 rate is paid on assets between $3 and $4 billion, Tier 4 rate is paid on assets in between $4 and $5 billion, and Tier 5 rate is paid on assets in excess of $5 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.") and an affiliate of Alger Management, a fee at the annual rate of .25% of the 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, 2016, the Portfolio paid Alger Inc. $87,437, 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, 2016.

During the six months ended June 30, 2016, the Portfolio earned interfund loan interest income of $31 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, 2016 through February 29, 2016, each trustee who is not affiliated with Alger Management or its affiliates (each, an "Independent Trustee") received a fee of $25,875 for each board 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 received 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 received a fee of $2,500 for each Audit Committee meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex.

Effective March 1, 2016, each Independent Trustee receives a fee of $27,250 for each board meeting attended, to a maximum of $109,000 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 additional compensation of $26,000 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 Audit Committee meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex.

(h) Interfund Trades: During the six months ended June 30, 2016, the Portfolio engaged in purchase and sale transactions with funds that have a common investment advisor. For the six months ended June 30, 2016, these purchases and sales were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$42,850	—

(i) 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, short-term securities and redemption-in-kind transactions, for the six months ended June 30, 2016, were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$286,965,844	$312,201,839

Transactions in foreign securities may involve certain considerations and risks not typically associated with those of U.S. companies because of, among other factors, the level of governmental supervision and regulation of foreign security markets, and the possibility of political or economic instability. Additional risks associated with investing in the emerging markets include increased volatility, limited liquidity, and less stringent regulatory and legal system.

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, 2016, 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 for each share class. During the six months ended June 30, 2016 and the year ended December 31, 2015, transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2016		FOR THE YEAR ENDED DECEMBER 31, 2015	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Capital Appreciation Portfolio				
Class I-2:				
Shares sold	746,392	$ 47,546,778	2,345,883	$ 173,637,745
Dividends reinvested	—	—	891,975	60,725,663
Shares redeemed	(1,221,240)	(76,692,390)	(1,937,786)	(144,007,126)
Net increase (decrease)	**(474,848)**	**$ (29,145,612)**	**1,300,072**	**$ 90,356,282**
Class S:				
Shares sold	51,932	$ 3,177,714	212,326	$ 15,346,976
Dividends reinvested	—	—	68,243	4,470,628
Shares redeemed	(52,446)	(3,211,379)	(74,074)	(5,318,881)
Net increase (decrease)	**(514)**	**$ (33,665)**	**206,495**	**$ 14,498,723**

During the year ended December 31, 2015, shares redeemed for the Class I-2 shares of Alger Capital Appreciation Portfolio included redemption-in-kind transactions of 86,523 shares valued at $6,630,286. The Portfolio had realized gains on these transactions of $872,265 recorded in the accompanying Statement of Operations.

NOTE 7 — Income Tax Information:

At December 31, 2015, the Portfolio, for federal income tax purposes, had no capital loss carryforwards and no capital loss carryforwards were utilized in 2015.

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 partnership 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, 2016, 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	$ 101,273,570	$ 101,266,157	—	$ 7,413
Consumer Staples	34,630,721	34,630,721	—	—
Energy	10,198,184	10,198,184	—	—
Financials	5,891,514	5,891,514	—	—
Health Care	104,104,416	104,104,416	—	—
Industrials	53,952,383	53,952,383	—	—
Information Technology	185,249,038	184,794,892	—	454,146
Materials	3,718,494	3,718,494	—	—
Telecommunication Services	10,776,769	10,776,769	—	—
TOTAL COMMON STOCKS	**$ 509,795,089**	**$ 509,333,530**	**—**	**$ 461,559**
MASTER LIMITED PARTNERSHIP				
Financials	3,866,621	3,866,621	—	—
PREFERRED STOCKS				
Consumer Discretionary	206,423	—	—	206,423
Health Care	690,381	—	—	690,381
Information Technology	2,093,399	—	—	2,093,399
TOTAL PREFERRED STOCKS	**$ 2,990,203**	**—**	**—**	**$ 2,990,203**
REAL ESTATE INVESTMENT TRUST				
Financials	7,105,014	7,105,014	—	—
TOTAL INVESTMENTS IN SECURITIES	**$ 523,756,927**	**$ 520,305,165**	**—**	**$ 3,451,762**

Alger Capital Appreciation Portfolio	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) Common Stocks
Opening balance at January 1, 2016	$ 426,719
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	34,840
Purchases and sales	–
Purchases	–
Sales	–
Closing balance at June 30, 2016	461,559
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 6/30/2016	$ 34,840

Alger Capital Appreciation Portfolio	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) Preferred Stocks
Opening balance at January 1, 2016	$ 2,980,148
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	10,055
Purchases and sales	–
Purchases	–
Sales	–
Closing balance at June 30, 2016	2,990,203
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 6/30/2016	$ 10,055

The following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30, 2016. 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, 2016	Valuation Methodology	Unobservable Input	Input/ Range
Alger Capital Appreciation Portfolio				
Common Stocks	$ 7,413	Income Approach	Discount Rate	40%
Common Stocks	454,146	Performance Multiple Methodology (xRevenue)	Market Multiple	11.5x-12.3x
Preferred Stocks	206,423	Income Approach	Discount Rate	40%
Preferred Stocks	690,381	Discounted Cash Flow	Discount Rate	20%
Preferred Stocks	2,093,399	Performance Multiple Methodology (xRevenue)	Market Multiple	11.5x-12.3x

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, 2016 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, 2016, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash, Foreign cash and Cash equivalents:				
Alger Capital Appreciation Portfolio	$ 21,959,322	—	$ 21,959,322	—

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.

There were no open derivative instruments as of June 30, 2016.

NOTE 10 — Risks:

As of June 30, 2016, the Portfolio invested a significant portion of its assets in securities in the information technology sector. Changes in economic conditions affecting such sectors would have a greater impact on the Portfolio and could affect the value, income and/or liquidity of positions in such securities. The Portfolio is a diversified fund, and does not concentrate in any industry. Sector and industry weightings will vary.

In the normal course of business, the Portfolio invests in securities and enters into transactions where risks exist due to fluctuations in the market (market risk). The value of securities held by the Portfolio may decline in response to certain events, including those directly involving the issuers whose securities are owned by the Portfolio; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency and interest rate and price fluctuations. Similar to issuer credit risk, the Portfolio may be exposed to counterparty credit risk, or the risk that an entity with which the Portfolio has unsettled or open transactions may fail to or be unable to perform on its commitments. The Portfolio manages counterparty credit risk by entering into transactions only with counterparties that it believes have the financial resources to honor their obligations and by monitoring the financial stability of those counterparties. Financial assets, which potentially expose the Portfolio to market, issuer and counterparty credit risks, consist principally of financial instruments and receivables due from counterparties. The extent of the Portfolio's exposure to market, issuer and counterparty credit risks with respect to these financial assets is generally approximated by its value recorded in the Statement of Assets and Liabilities, less any collateral held by the Portfolio.

NOTE 11 — Affiliated Securities:

The issuers of the securities listed below are deemed to be affiliates of the Fund because the Fund or its affiliates owned 5% or more of the issuer's voting securities during all or part of the six months ended June 30, 2016. Purchase and sale transactions and dividend income earned during the period were as follows:

Security	Shares/Par at December 31, 2015	Purchases/ Conversion	Sales/ Conversion	Shares/Par at June 30, 2016	Dividend Income	Realized Gain (Loss)	Value at June 30, 2016
Alger Capital Appreciation Portfolio							
Common Stocks							
Choicestream, Inc.*	23,166	–	–	23,166	–	–	7,413
Preferred Stocks							
Choicestream, Inc. Class A & Class B*	645,071	–	–	645,071	–	–	206,423

* *Non-income producing security.*

NOTE 12 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to June 30, 2016 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, 2016 and ending June 30, 2016.

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, 2016	Ending Account Value June 30, 2016	Expenses Paid During the Six Months Ended June 30, 2016[(a)]	Annualized Expense Ratio For the Six Months Ended June 30, 2016[(b)]
Alger Capital Appreciation Portfolio					
Class I-2	Actual	$ 1,000.00	$ 968.26	$ 4.65	0.96%
	Hypothetical[(c)]	1,000.00	1,020.14	4.77	0.96
Class S	Actual	1,000.00	966.86	5.97	1.23
	Hypothetical[(c)]	1,000.00	1,018.80	6.12	1.23

(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 182/366 (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 publicly available its month-end top 10 holdings with a 10 day lag and its month-end full portfolio with a 60 day lag on its 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 Portfolio's holdings versus its peers or an index (such as P/E (or price to book) ratio EPS forecasts, alpha, beta, capture ratio, standard deviation, Sharpe ratio, information ratio, R-squared, and market cap analysis), security specific impact on overall portfolio performance, return on equity statistics, geographic analysis, number of holdings, 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 Portfolio 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

Custodian

Brown Brothers Harriman & Company
50 Post Office Square
Boston, MA 02110

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.

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ALGER

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Deutsche
Asset Management

June 30, 2016

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 and less liquid 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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

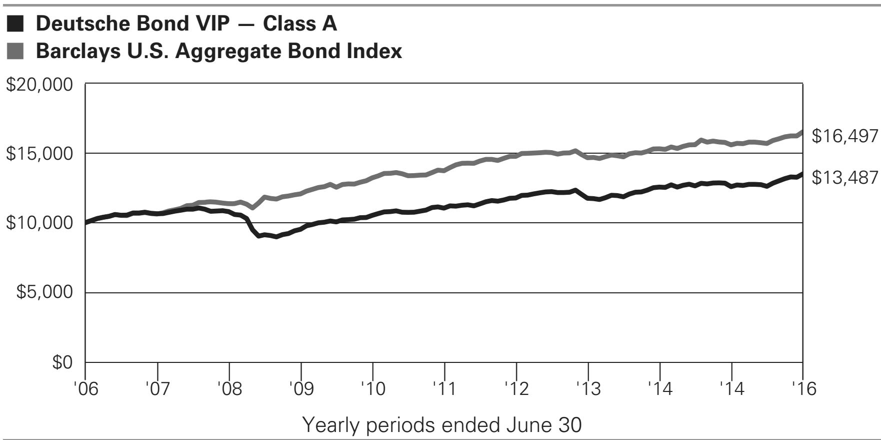
Performance Summary

June 30, 2016 (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, 2016 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	$10,708	$10,727	$11,489	$12,218	$13,487
	Average annual total return	7.08%	7.27%	4.74%	4.09%	3.04%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,531	$10,600	$11,269	$12,028	$16,497
	Average annual total return	5.31%	6.00%	4.06%	3.76%	5.13%

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 Total Net Assets)	**6/30/16**	**12/31/15**
Corporate Bonds	45%	22%
Government & Agency Obligations	24%	42%
Mortgage-Backed Securities Pass-Throughs	14%	23%
Collateralized Mortgage Obligations	6%	8%
Asset-Backed	4%	2%
Commercial Mortgage-Backed Securities	3%	4%
Municipal Bonds and Notes	1%	1%
Cash Equivalents, Securities Lending Collateral and other Assets and Liabilities, net	3%	–2%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**6/30/16**	**12/31/15**
AAA	45%	65%
AA	6%	3%
A	9%	4%
BBB	24%	15%
BB or Below	14%	9%
Not Rated	2%	4%
	100%	100%

Interest Rate Sensitivity	**6/30/16**	**12/31/15**
Effective Maturity	7.3 years	7.4 years
Effective Duration	5.2 years	7.1 years

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

John D. Ryan
Gary Russell, CFA
Thomas M. Farina, CFA
Gregory M. Staples, CFA
Portfolio Managers

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 45.2%		
Consumer Discretionary 8.2%		
21st Century Fox America, Inc., 3.7%, 10/15/2025	50,000	54,160
AMC Networks, Inc., 5.0%, 4/1/2024	265,000	262,317
Charter Communications Operating LLC:		
144A, 3.579%, 7/23/2020	90,000	94,090
144A, 4.908%, 7/23/2025	810,000	885,575
144A, 6.484%, 10/23/2045	50,000	59,701
Churchill Downs, Inc., 144A, 5.375%, 12/15/2021	9,000	9,191
CVS Health Corp., 5.125%, 7/20/2045	110,000	136,463
Dana Holding Corp., 5.375%, 9/15/2021 (b)	150,000	153,825
Discovery Communications LLC, 4.875%, 4/1/2043	60,000	54,129
General Motors Co.:		
6.6%, 4/1/2036	55,000	63,069
6.75%, 4/1/2046	50,000	59,309
General Motors Financial Co., Inc.:		
2.4%, 5/9/2019	160,000	160,446
3.2%, 7/13/2020	200,000	202,614
3.2%, 7/6/2021 (c)	190,000	190,302
5.25%, 3/1/2026	65,000	70,661
Goodyear Tire & Rubber Co., 5.0%, 5/31/2026	255,000	259,781
HD Supply, Inc., 144A, 5.75%, 4/15/2024	300,000	312,000
Hertz Corp., 6.75%, 4/15/2019	300,000	306,271
International Game Technology PLC, 144A, 6.5%, 2/15/2025	300,000	302,250
Lennar Corp., 4.75%, 11/15/2022	300,000	304,875
Sabre GLBL, Inc., 144A, 5.375%, 4/15/2023	300,000	306,750
Starbucks Corp., 2.45%, 6/15/2026	130,000	132,019
Tenneco, Inc., 5.0%, 7/15/2026	240,000	243,449
The Gap, Inc., 5.95%, 4/12/2021 (b)	695,000	724,864
Time Warner Cable, Inc., 7.3%, 7/1/2038	90,000	112,702
Toll Brothers Finance Corp., 4.875%, 11/15/2025	300,000	297,000
TRI Pointe Group, Inc., 4.875%, 7/1/2021	795,000	793,012
Walgreens Boots Alliance, Inc., 4.8%, 11/18/2044	90,000	96,822
		6,647,647
Consumer Staples 1.9%		
Altria Group, Inc., 9.95%, 11/10/2038	190,000	341,799
Anheuser-Busch InBev Finance, Inc., 4.9%, 2/1/2046	200,000	234,369
Aramark Services, Inc., 144A, 4.75%, 6/1/2026	350,000	343,000
JBS Investments GmbH, 144A, 7.25%, 4/3/2024	30,000	30,891
JBS U.S.A. LLC:		
144A, 7.25%, 6/1/2021	30,000	31,050
144A, 8.25%, 2/1/2020	115,000	119,025
Kraft Heinz Foods Co., 144A, 4.375%, 6/1/2046	115,000	121,615
Molson Coors Brewing Co.:		
3.0%, 7/15/2026 (c)	105,000	104,897
4.2%, 7/15/2046 (c)	120,000	120,513
PepsiCo, Inc., 4.45%, 4/14/2046	50,000	58,349
		1,505,508
Energy 4.1%		
Anadarko Petroleum Corp.:		
4.85%, 3/15/2021	40,000	42,425
5.55%, 3/15/2026 (b)	90,000	99,385
6.6%, 3/15/2046	38,000	45,885
Concho Resources, Inc., 5.5%, 4/1/2023 (b)	150,000	150,375
ConocoPhillips Co.:		
4.15%, 11/15/2034	100,000	101,022
4.2%, 3/15/2021 (b)	45,000	48,723
Continental Resources, Inc., 5.0%, 9/15/2022 (b)	150,000	146,625
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	250,000	258,750
Ensco PLC, 4.7%, 3/15/2021	90,000	74,783
Exxon Mobil Corp., 4.114%, 3/1/2046	75,000	84,586
Halliburton Co., 3.8%, 11/15/2025	360,000	376,002
Kinder Morgan Energy Partners LP, 6.375%, 3/1/2041	20,000	20,853
Korea National Oil Corp., 144A, 2.125%, 4/14/2021	260,000	261,908
Newfield Exploration Co., 5.75%, 1/30/2022	150,000	151,875
Noble Holding International Ltd., 5.0%, 3/16/2018	30,000	29,550
ONEOK Partners LP, 3.375%, 10/1/2022	70,000	68,488
Plains All American Pipeline LP, 2.85%, 1/31/2023	200,000	184,089
Range Resources Corp., 4.875%, 5/15/2025	150,000	142,875
Rosneft Finance SA, 144A, 6.625%, 3/20/2017	100,000	102,875
Schlumberger Holdings Corp., 144A, 4.0%, 12/21/2025	310,000	333,633
Shell International Finance BV, 4.0%, 5/10/2046	125,000	127,488
Sinopec Group Overseas Development 2016 Ltd., 144A, 2.125%, 5/3/2019	205,000	205,865
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	90,000	88,550
Williams Partners LP, 4.0%, 11/15/2021	170,000	165,814
		3,312,424
Financials 16.8%		
AerCap Ireland Capital Ltd., 3.95%, 2/1/2022	590,000	590,000
AIA Group Ltd., 144A, 4.5%, 3/16/2046	200,000	216,877
American Tower Corp., (REIT), 3.3%, 2/15/2021	40,000	41,728
Apollo Investment Corp., 5.25%, 3/3/2025	120,000	120,478
Ares Capital Corp., 3.875%, 1/15/2020	200,000	206,867
Banco Continental SAECA, 144A, 8.875%, 10/15/2017	200,000	203,000

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

	Principal Amount ($)(a)	Value ($)
Banque Federative du Credit Mutuel SA, 144A, 2.5%, 4/13/2021	205,000	209,618
Barclays Bank PLC, 144A, 6.05%, 12/4/2017	470,000	492,199
Barclays PLC, 4.375%, 1/12/2026	225,000	227,183
Blackstone Holdings Finance Co., LLC, 144A, 5.0%, 6/15/2044	50,000	54,240
Branch Banking & Trust Co., 1.45%, 5/10/2019	180,000	180,722
Capital One NA, 2.95%, 7/23/2021	510,000	524,083
CBL & Associates LP:		
(REIT), 4.6%, 10/15/2024 (b)	100,000	90,110
(REIT), 5.25%, 12/1/2023	150,000	142,311
Citigroup, Inc., 1.157%*, 5/1/2017	290,000	290,037
Corp. Financiera de Desarrollo SA, 144A, 4.75%, 2/8/2022	250,000	265,000
Credit Agricole SA, 144A, 2.375%, 7/1/2021	250,000	252,808
Credit Suisse Group Funding Guernsey Ltd., 144A, 3.8%, 6/9/2023	250,000	249,359
Crown Castle International Corp.:		
(REIT), 3.4%, 2/15/2021	70,000	73,075
(REIT), 3.7%, 6/15/2026	55,000	56,743
Dana Financing Luxembourg Sarl, 144A, 6.5%, 6/1/2026	485,000	472,269
Equinix, Inc., (REIT), 5.375%, 4/1/2023	345,000	356,213
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	100,000	102,351
FS Investment Corp., 4.75%, 5/15/2022	150,000	152,910
GE Capital International Funding Co., Unlimited Co., 144A, 4.418%, 11/15/2035	410,000	459,850
Government Properties Income Trust, (REIT), 3.75%, 8/15/2019	110,000	112,833
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	170,000	182,697
HSBC Holdings PLC:		
3.9%, 5/25/2026	375,000	385,806
6.375%, 12/29/2049	410,000	390,525
Intesa Sanpaolo SpA, 2.375%, 1/13/2017	410,000	411,534
Jefferies Group LLC, 5.125%, 4/13/2018	160,000	167,352
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	70,000	70,736
Legg Mason, Inc., 5.625%, 1/15/2044	100,000	102,741
Lloyds Banking Group PLC, 4.65%, 3/24/2026	205,000	207,586
Loews Corp., 4.125%, 5/15/2043	80,000	81,790
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	390,000	434,770
Manulife Financial Corp.:		
4.9%, 9/17/2020	80,000	88,736
5.375%, 3/4/2046	110,000	128,542
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	30,000	28,670
Morgan Stanley, Series F, 5.625%, 9/23/2019	470,000	521,469
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	90,000	98,456
Neuberger Berman Group LLC, 144A, 5.875%, 3/15/2022	155,000	161,781
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	130,000	135,248
QBE Insurance Group Ltd., 144A, 2.4%, 5/1/2018	260,000	262,187
Santander Holdings U.S.A., Inc.:		
2.7%, 5/24/2019	260,000	261,251
4.5%, 7/17/2025	310,000	318,432
Santander UK PLC, 2.5%, 3/14/2019	145,000	146,479
Scentre Group Trust 1, 144A, (REIT), 3.5%, 2/12/2025	160,000	165,424
Select Income REIT, (REIT), 4.15%, 2/1/2022	120,000	120,562
Societe Generale SA, 144A, 2.625%, 9/16/2020	410,000	420,293
Standard Chartered PLC:		
144A, 3.05%, 1/15/2021 (b)	200,000	202,644
144A, 4.05%, 4/12/2026	225,000	226,095
Suncorp-Metway Ltd., 144A, 2.1%, 5/3/2019	95,000	96,049
Swiss Re Treasury U.S. Corp., 144A, 4.25%, 12/6/2042	70,000	73,948
The Goldman Sachs Group, Inc., 1.305%*, 6/4/2017	200,000	200,151
Trust F/1401, 144A, (REIT), 5.25%, 1/30/2026	205,000	208,588
Turkiye Garanti Bankasi AS, 144A, 4.75%, 10/17/2019	410,000	421,701
VEREIT Operating Partnership LP, (REIT), 4.125%, 6/1/2021	285,000	297,289
Voya Financial, Inc., 4.8%, 6/15/2046	120,000	119,876
Wells Fargo Bank NA, 1.75%, 5/24/2019 (b)	320,000	324,329
		13,606,601

Health Care 3.5%

	Principal Amount ($)(a)	Value ($)
AbbVie, Inc.:		
3.2%, 5/14/2026	140,000	141,817
3.6%, 5/14/2025	100,000	104,783
4.7%, 5/14/2045	120,000	126,906
Actavis Funding SCS, 4.75%, 3/15/2045	70,000	73,505
Actavis, Inc., 3.25%, 10/1/2022	150,000	153,253
Aetna, Inc.:		
2.8%, 6/15/2023	85,000	86,828
4.375%, 6/15/2046	115,000	119,427
Anthem, Inc., 3.3%, 1/15/2023	60,000	61,975
Celgene Corp., 3.875%, 8/15/2025 (b)	180,000	192,000
Express Scripts Holding Co.:		
3.4%, 3/1/2027 (c)	60,000	59,924
4.8%, 7/15/2046 (c)	70,000	69,907
Forest Laboratories LLC, 144A, 4.875%, 2/15/2021	170,000	188,688
Gilead Sciences, Inc., 4.75%, 3/1/2046	75,000	85,283
HCA, Inc., 5.25%, 6/15/2026	300,000	311,437
Johnson & Johnson, 3.7%, 3/1/2046	60,000	67,560
LifePoint Health, Inc.:		
144A, 5.375%, 5/1/2024 (b)	300,000	300,750
5.875%, 12/1/2023	310,000	322,400
Mylan NV:		
144A, 3.15%, 6/15/2021	155,000	157,224
144A, 5.25%, 6/15/2046	80,000	83,335

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

	Principal Amount ($)(a)	Value ($)
Stryker Corp.:		
3.375%, 11/1/2025	80,000	83,953
3.5%, 3/15/2026	15,000	15,913
4.625%, 3/15/2046	40,000	44,941
		2,851,809
Industrials 1.8%		
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	15,000	13,200
FedEx Corp., 4.55%, 4/1/2046	90,000	97,659
Grupo KUO SAB De CV, 144A, 6.25%, 12/4/2022	200,000	201,250
Molex Electronic Technologies LLC, 144A, 3.9%, 4/15/2025	70,000	71,439
Nortek, Inc., 8.5%, 4/15/2021	300,000	311,250
Republic Services, Inc., 2.9%, 7/1/2026 (c)	60,000	60,850
Spirit AeroSystems, Inc., 5.25%, 3/15/2022	315,000	330,816
United Rentals North America, Inc., 5.875%, 9/15/2026	400,000	397,000
		1,483,464
Information Technology 3.7%		
Apple, Inc., 3.45%, 2/9/2045	60,000	56,379
CDW LLC, 6.0%, 8/15/2022	300,000	313,500
Diamond 1 Finance Corp.:		
144A, 3.48%, 6/1/2019	150,000	153,661
144A, 4.42%, 6/15/2021	120,000	123,513
144A, 5.45%, 6/15/2023	90,000	93,382
144A, 5.875%, 6/15/2021 (b)	1,220,000	1,244,122
144A, 8.1%, 7/15/2036	90,000	97,024
eBay, Inc., 3.8%, 3/9/2022	81,000	86,069
Fidelity National Information Services, Inc., 3.625%, 10/15/2020	140,000	147,997
Hewlett Packard Enterprise Co.:		
144A, 3.6%, 10/15/2020	90,000	93,940
144A, 4.9%, 10/15/2025	130,000	135,827
KLA-Tencor Corp., 4.65%, 11/1/2024	50,000	54,544
Lam Research Corp., 3.9%, 6/15/2026	75,000	78,958
Oracle Corp., 2.65%, 7/15/2026 (c)	205,000	205,514
Seagate HDD Cayman, 5.75%, 12/1/2034	110,000	77,275
		2,961,705
Materials 2.6%		
Corp. Nacional del Cobre de Chile, 144A, 4.5%, 9/16/2025	200,000	209,346
Freeport-McMoRan, Inc., 2.375%, 3/15/2018	150,000	147,000
Glencore Funding LLC, 144A, 4.625%, 4/29/2024 (b)	40,000	37,400
Gold Fields Orogen Holdings BVI Ltd., 144A, 4.875%, 10/7/2020	200,000	197,000
Kaiser Aluminum Corp., 144A, 5.875%, 5/15/2024	290,000	297,975
Novelis, Inc., 8.75%, 12/15/2020	265,000	276,263
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020	325,000	335,562
Rio Tinto Finance U.S.A. Ltd., 3.75%, 6/15/2025	90,000	94,151
Teck Resources Ltd., 144A, 8.0%, 6/1/2021	135,000	139,050
Yamana Gold, Inc., 4.95%, 7/15/2024	405,000	398,439
		2,132,186

	Principal Amount ($)(a)	Value ($)
Telecommunication Services 2.3%		
AT&T, Inc.:		
3.4%, 5/15/2025	340,000	347,788
3.8%, 3/15/2022	60,000	63,739
4.125%, 2/17/2026	90,000	96,681
4.35%, 6/15/2045	70,000	67,828
4.75%, 5/15/2046	50,000	51,244
5.65%, 2/15/2047	70,000	80,165
Bharti Airtel International Netherlands BV, 144A, 5.125%, 3/11/2023	400,000	432,250
Digicel Group Ltd., 144A, 8.25%, 9/30/2020	42,000	35,070
Millicom International Cellular SA, 144A, 6.0%, 3/15/2025	200,000	195,000
Turk Telekomunikasyon AS, 144A, 3.75%, 6/19/2019	250,000	253,700
Verizon Communications, Inc.:		
3.5%, 11/1/2024 (b)	130,000	138,259
4.672%, 3/15/2055	130,000	131,487
		1,893,211
Utilities 0.3%		
Southern Co., 3.25%, 7/1/2026	205,000	**212,938**
Total Corporate Bonds (Cost $35,815,806)		**36,607,493**

Mortgage-Backed Securities Pass-Throughs 14.4%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
4.0%, 8/1/2039	537,101	583,869
5.5%, with various maturities from 10/1/2023 until 6/1/2035	1,081,079	1,218,542
6.5%, 3/1/2026	159,343	180,898
Federal National Mortgage Association:		
2.5%*, 9/1/2038	45,112	47,406
3.5%, 3/1/2046	1,870,800	1,943,499
5.0%, with various maturities from 10/1/2033 until 8/1/2040	1,018,910	1,133,258
5.5%, with various maturities from 12/1/2032 until 8/1/2037	1,098,078	1,242,991
6.0%, with various maturities from 4/1/2024 until 3/1/2025	313,114	357,551
6.5%, with various maturities from 3/1/2017 until 12/1/2037	338,961	400,570
Government National Mortgage Association, 4.0%, with various maturities from 2/15/2041 until 4/15/2041	4,211,172	4,527,359
Total Mortgage-Backed Securities Pass-Throughs (Cost $11,254,518)		**11,635,943**

Asset-Backed 3.8%

Automobile Receivables 0.9%

	Principal Amount ($)(a)	Value ($)
Avis Budget Rental Car Funding AESOP LLC, “C”, Series 2015-1A, 144A, 3.96%, 7/20/2021	500,000	494,617
Santander Drive Auto Receivables Trust, “B”, Series 2016-2, 2.08%, 2/16/2021	200,000	200,885
		695,502

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

	Principal Amount ($)(a)	Value ($)
Miscellaneous 2.9%		
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	225,117	220,738
PennyMac LLC, "A1", Series 2015-NPL1, 144A, 4.0%, 3/25/2055	471,818	469,679
Taco Bell Funding LLC, "A2I", Series 2016-1A, 144A, 3.832%, 5/25/2046	745,000	754,089
Telos CLO Ltd., "A1", Series 2014-6A, 144A, 2.12%*, 1/17/2027	500,000	491,745
Voya CLO Ltd., "C", Series 2015-1A, 144A, 4.02%*, 4/18/2027	500,000	446,361
		2,382,612
Total Asset-Backed (Cost $3,117,301)		**3,078,114**

Commercial Mortgage-Backed Securities 3.3%

	Principal Amount ($)(a)	Value ($)
FHLMC Multifamily Structured Pass-Through Certificates:		
"X1", Series K043, Interest Only, 0.677%**, 12/25/2024	4,982,886	196,828
"X1", Series K054, Interest Only, 1.319%**, 1/25/2026	1,849,155	167,660
JPMBB Commercial Mortgage Securities Trust, "A3", Series 2014-C19, 3.669%, 4/15/2047	150,000	161,370
JPMorgan Chase Commercial Mortgage Securities Corp., "A4", Series 2007-C1, 5.716%, 2/15/2051	840,153	867,423
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	1,002,168	1,025,591
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 6.021%*, 6/12/2050	295,248	295,149
Total Commercial Mortgage-Backed Securities (Cost $2,801,110)		**2,714,021**

Collateralized Mortgage Obligations 5.7%

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans, "A2", Series 2006-1, 6.0%, 3/25/2036	265,779	222,785
CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035	99,924	61,869
Federal Home Loan Mortgage Corp.:		
"PI", Series 4485, Interest Only, 3.5%, 6/15/2045	2,693,261	284,848
"PI", Series 3940, Interest Only, 4.0%, 2/15/2041	420,560	42,448
"C31", Series 303, Interest Only, 4.5%, 12/15/2042	1,816,509	350,395
"SP", Series 4047, Interest Only, 6.208%**, 12/15/2037	442,154	52,728
"JS", Series 3572, Interest Only, 6.358%**, 9/15/2039	405,420	64,001
Federal National Mortgage Association:		
"PZ", Series 2010-129, 4.5%, 11/25/2040	953,742	1,015,045
"SI", Series 2007-23, Interest Only, 6.317%**, 3/25/2037	189,737	34,509
Government National Mortgage Association:		
"PL", Series 2013-19, 2.5%, 2/20/2043	684,500	696,637
"HX", Series 2012-91, 3.0%, 9/20/2040	330,940	341,864
"GC", Series 2010-101, 4.0%, 8/20/2040	500,000	569,117
"ME", Series 2014-4, 4.0%, 1/16/2044	500,000	578,620
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	528,543	51,184
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	373,244	44,240
"EI", Series 2011-162, Interest Only, 4.5%, 5/20/2040	730,067	33,031
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040	1,238,770	30,209
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	105,206	15,880
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	204,243	32,503
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	90,056	13,492
"AI", Series 2007-38, Interest Only, 6.018%**, 6/16/2037	56,148	8,850
MASTR Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	55,766	57,061
"8A1", Series 2004-3, 7.0%, 4/25/2034	7,440	7,630
Total Collateralized Mortgage Obligations (Cost $4,954,161)		**4,608,946**

Government & Agency Obligations 24.3%

Other Government Related (d) 0.3%

		Principal Amount ($)(a)	Value ($)
Sberbank of Russia, Series 7, REG S, 5.717%, 6/16/2021		200,000	**215,632**
Sovereign Bonds 2.9%			
Export-Import Bank of Korea, 1.75%, 5/26/2019		715,000	720,976
Government of Romania, 144A, 2.75%, 10/29/2025	EUR	1,000,000	1,143,042
Province of British Columbia Canada, 2.25%, 6/2/2026		500,000	512,579
			2,376,597
U.S. Government Sponsored Agency 0.9%			
Federal Home Loan Mortgage Corp., 6.25%, 7/15/2032		500,000	**756,458**
U.S. Treasury Obligations 20.2%			
U.S. Treasury Bills:			
0.345%***, 8/11/2016 (e)		623,000	622,855
0.44%***, 12/1/2016 (e)		181,000	180,781
U.S. Treasury Bond, 2.5%, 2/15/2046		55,000	57,271
U.S. Treasury Notes:			
1.0%, 8/31/2016 (f)		5,598,000	5,604,482
1.375%, 5/31/2021		2,510,000	2,555,200
1.625%, 4/30/2019		2,390,000	2,451,057
1.625%, 5/15/2026 (b)		2,925,000	2,960,764
2.25%, 11/15/2024		1,201,000	1,281,130
2.5%, 5/15/2024		600,000	651,680
			16,365,220
Total Government & Agency Obligations (Cost $19,366,400)			**19,713,907**

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

	Principal Amount ($)(a)	Value ($)
Municipal Bonds and Notes 0.7%		
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (Cost $591,971)	591,971	**605,900**

	Shares	Value ($)
Securities Lending Collateral 7.5%		
Daily Assets Fund "Capital Shares", 0.51% (g) (h) (Cost $6,085,988)	6,085,988	**6,085,988**

	Shares	Value ($)
Cash Equivalents 1.6%		
Deutsche Central Cash Management Government Fund, 0.44% (g) (Cost $1,283,734)	1,283,734	**1,283,734**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $85,270,989)†	106.5	**86,334,046**
Other Assets and Liabilities, Net	(6.5)	**(5,275,070)**
Net Assets	100.0	**81,058,976**

* 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, 2016.

** These securities are shown at their current rate as of June 30, 2016.

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

† The cost for federal income tax purposes was $85,274,491. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $1,059,555. This consisted of aggregate gross unrealized depreciation for all securities in which there was an excess of value over tax cost of $1,907,043 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $847,488.

(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, 2016 amounted to $5,915,739, which is 7.3% of net assets.

(c) When-issued security.

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

(e) At June 30, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At June 30, 2016, this security has been pledged, in whole or in part, as collateral for open centrally cleared swap contracts.

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

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

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

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

At June 30, 2016, open futures contracts sold were as follows:

Futures	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
Ultra 10 Year U.S. Treasury Note	9/21/2016	10	1,456,719	(25,176)
Ultra Long U.S. Treasury Bond	9/21/2016	39	7,268,625	(426,527)
Total unrealized depreciation				**(451,703)**

At June 30, 2016, open credit default swap contracts sold were as follows:

Centrally Cleared Swap

Expiration Date	Notional Amount ($) (i)	Fixed Cash Flows Received	Underlying Reference Obligation	Value ($)	Unrealized Appreciation ($)
6/20/2021	2,500,000	5.0%	Markit Dow Jones CDX North America High Yield Index	80,460	**33,289**

(i) 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.

At June 30, 2016, open interest rate swap contracts were as follows:

Centrally Cleared Swap

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
12/16/2015 9/16/2025	500,000	Floating — 3-Month LIBOR	Fixed — 2.64%	62,043	59,039
12/16/2015 9/17/2035	9,700,000	Floating — 3-Month LIBOR	Fixed — 2.938%	2,108,565	1,902,118
12/16/2015 9/18/2045	3,600,000	Floating — 3-Month LIBOR	Fixed — 2.998%	1,042,096	922,921
9/30/2015 9/30/2045	2,000,000	Fixed — 2.88%	Floating — 3-Month LIBOR	(520,014)	(479,219)
2/3/2015 2/3/2045	1,800,000	Fixed — 3.035%	Floating — 3-Month LIBOR	(535,319)	(514,132)
1/28/2015 1/28/2045	2,000,000	Fixed — 3.088%	Floating — 3-Month LIBOR	(620,925)	(601,189)
12/16/2015 9/18/2017	13,600,000	Fixed — 1.557%	Floating — 3-Month LIBOR	(201,504)	(208,955)
12/4/2015 12/4/2045	2,000,000	Fixed — 2.615%	Floating — 3-Month LIBOR	(381,148)	(338,580)
9/16/2015 9/16/2045	7,195,000	Floating — 3-Month LIBOR	Fixed — 3.0%	2,086,137	1,642,820
5/9/2016 5/9/2026	2,000,000	Fixed — 2.48%	Floating — 3-Month LIBOR	(216,056)	(193,932)
Total net unrealized appreciation					**2,190,891**

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at June 30, 2016 is 0.65%.

At June 30, 2016, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	552,632	BRL	2,100,000	7/8/2016	100,517	Macquarie Bank Ltd.
EUR	1,020,000	USD	1,157,241	7/20/2016	24,455	Barclays Bank PLC
Total unrealized appreciation					**124,972**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
BRL	2,100,000	USD	581,717	7/8/2016	**(71,432)**	Macquarie Bank Ltd.

Currency Abbreviations

BRL	Brazilian Dollar	USD	United States Dollar
EUR	Euro		

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

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2016 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	$ —	$ 36,607,493	$ —	$ 36,607,493
Mortgage-Backed Securities Pass-Throughs	—	11,635,943	—	11,635,943
Asset-Backed	—	3,078,114	—	3,078,114
Commercial Mortgage-Backed Securities	—	2,714,021	—	2,714,021
Collateralized Mortgage Obligations	—	4,608,946	—	4,608,946
Government & Agency Obligations	—	19,713,907	—	19,713,907
Municipal Bonds and Notes	—	605,900	—	605,900
Short-Term Investments (j)	7,369,722	—	—	7,369,722
Derivatives (k)				
Credit Default Swap Contracts	—	33,289	—	33,289
Interest Rate Swap Contracts	—	4,526,898	—	4,526,898
Forward Foreign Currency Exchange Contracts	—	124,972	—	124,972
Total	**$ 7,369,722**	**$ 83,649,483**	**$ —**	**$ 91,019,205**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (k)				
Futures Contracts	$ (451,703)	$ —	$ —	$ (451,703)
Interest Rate Swap Contracts	—	(2,336,007)	—	(2,336,007)
Forward Foreign Currency Exchange Contracts	—	(71,432)	—	(71,432)
Total	**$ (451,703)**	**$ (2,407,439)**	**$ —**	**$ (2,859,142)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(j) See Investment Portfolio for additional detailed categorizations.

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

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

Statement of Assets and Liabilities

as of June 30, 2016 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $77,901,267) — including $5,915,739 of securities loaned	$	78,964,324
Investment in Daily Assets Fund (cost $6,085,988)*		6,085,988
Investment in Deutsche Central Cash Management Government Fund (cost $1,283,734)		1,283,734
Total investments in securities, at value (cost $85,270,989)		86,334,046
Cash		22,883
Foreign currency, at value (cost $324,655)		292,066
Receivable for investments sold		886,157
Receivable for Fund shares sold		28,379
Interest receivable		548,258
Receivable for variation margin on futures contracts		37,002
Receivable for variation margin on centrally cleared swaps		87,905
Unrealized appreciation on forward foreign currency exchange contracts		124,972
Foreign taxes recoverable		1,518
Other assets		1,576
Total assets		88,364,762
Liabilities		
Payable upon return of securities loaned		6,085,988
Payable for investments purchased		180,721
Payable for investments purchased — when-issued securities		807,671
Payable for Fund shares redeemed		34,640
Unrealized depreciation on forward foreign currency exchange contracts		71,432
Accrued management fee		19,418
Accrued Trustees' fees		337
Other accrued expenses and payables		105,579
Total liabilities		7,305,786
Net assets, at value	**$**	**81,058,976**
Net Assets Consist of		
Undistributed net investment income		517,645
Net unrealized appreciation (depreciation) on:		
Investments		1,063,057
Swap contracts		2,224,180
Futures		(451,703)
Foreign currency		20,216
Accumulated net realized gain (loss)		(18,183,160)
Paid-in capital		95,868,741
Net assets, at value	**$**	**81,058,976**
Class A		
Net Asset Value, offering and redemption price per share ($81,058,976 ÷ 14,521,821 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.58**

* 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, 2016 (Unaudited)

Investment Income		
Income:		
Interest	$	1,232,348
Dividends		74,159
Income distributions — Deutsche Central Cash Management Government Fund		3,000
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		7,590
Total income		1,317,097
Expenses:		
Management fee		154,804
Administration fee		39,693
Services to shareholders		833
Custodian fee		24,836
Professional fees		44,450
Reports to shareholders		19,670
Trustees' fees and expenses		2,898
Other		8,590
Total expenses before expense reductions		295,774
Expense reductions		(39,405)
Total expenses after expense reductions		256,369
Net investment income		**1,060,728**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(372,564)
Swap contracts		309,861
Futures		311,295
Written options		(12,713)
Foreign currency		98,133
		334,012
Change in net unrealized appreciation (depreciation) on:		
Investments		3,107,340
Swap contracts		1,733,346
Futures		(325,687)
Written options		(34,889)
Foreign currency		(426,075)
		4,054,035
Net gain (loss)		**4,388,047**
Net increase (decrease) in net assets resulting from operations	**$**	**5,448,775**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income	$ 1,060,728	$ 2,448,217
Net realized gain (loss)	334,012	(3,320,978)
Change in net unrealized appreciation (depreciation)	4,054,035	782,998
Net increase (decrease) in net assets resulting from operations	5,448,775	(89,763)
Distributions to shareholders from:		
Net investment income:		
Class A	(4,037,321)	(2,926,472)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,756,914	11,060,840
Reinvestment of distributions	4,037,321	2,926,472
Payments for shares redeemed	(9,946,523)	(32,571,389)
Net increase (decrease) in net assets from Class A share transactions	(152,288)	(18,584,077)
Increase (decrease) in net assets	1,259,166	(21,600,312)
Net assets at beginning of period	79,799,810	101,400,122
Net assets at end of period (including undistributed net investment income of $517,645 and $3,494,238, respectively)	**$ 81,058,976**	**$ 79,799,810**

Other Information		
Class A		
Shares outstanding at beginning of period	14,528,974	17,886,425
Shares sold	1,030,776	1,969,516
Shares issued to shareholders in reinvestment of distributions	739,436	520,725
Shares redeemed	(1,777,365)	(5,847,692)
Net increase (decrease) in Class A shares	(7,153)	(3,357,451)
Shares outstanding at end of period	**14,521,821**	**14,528,974**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$ 5.49**	**$ 5.67**	**$ 5.51**	**$ 5.89**	**$ 5.72**	**$ 5.66**
Income (loss) from investment operations:						
Net investment income[a]	.07	.14	.17	.16	.16	.22
Net realized and unrealized gain (loss)	.31	(.15)	.19	(.33)	.27	.09
Total from investment operations	.38	(.01)	.36	(.17)	.43	.31
Less distributions from:						
Net investment income	(.29)	(.17)	(.20)	(.21)	(.26)	(.25)
Net asset value, end of period	**$ 5.58**	**$ 5.49**	**$ 5.67**	**$ 5.51**	**$ 5.89**	**$ 5.72**
Total Return (%)	7.08[b]**	(.29)[b]	6.63[b]	(3.03)[b]	7.77	5.68
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	81	80	101	105	190	112
Ratio of expenses before expense reductions (%)	.75*	.69	.69	.65	.58	.62
Ratio of expenses after expense reductions (%)	.65*	.64	.61	.56	.58	.62
Ratio of net investment income (%)	2.67*	2.54	2.99	2.88	2.81	3.86
Portfolio turnover rate (%)	180**	197	273	418	115	219

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 "Trust") 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 Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® 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 Trust 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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as corporate bonds and U.S. Treasury obligations in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end.

Remaining Contractual Maturity of the Agreements As of June 30, 2016

	Overnight and Continuous	<30 days	Between 30 & 90 days	>90 days	Total
Securities Lending Transactions					
Corporate Bonds	$ 3,795,238	$ —	$ —	$ —	$ 3,795,238
U.S. Treasury Obligations	2,290,750	—	—	—	2,290,750
Total Borrowings	**$ 6,085,988**	**$ —**	**$ —**	**$ —**	**$ 6,085,988**
Gross amount of recognized liabilities for securities lending transactions					**$ 6,085,988**

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. The 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, 2015, 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 approximately $4,561,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($1,170,000) and long-term losses ($3,391,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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 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 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, 2016, 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, 2016, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to $20,649,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $5,237,000 to $8,725,000.

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, 2016, 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 written options contracts as of June 30, 2016. For the six months ended June 30, 2016, the investment in written options contracts had a total value generally indicative of a range from $0 to approximately $347,000.

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, 2016, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics or to hedge the risk of default or other specified credit events on portfolio assets.

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 contract as of June 30, 2016, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $0 to $2,500,000.

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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $44,395,000 to $56,295,000.

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, 2016, 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, 2016, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in forward currency contracts U.S. dollars purchased had a total contract value generally indicative of a range from approximately $1,739,000 to $18,371,000, and the investment in forward currency contracts U.S. dollars sold had a total contract value generally indicative of a range from approximately $553,000 to $18,038,000.

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, 2016 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Forward Contracts**	**Swap Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ 4,526,898	$ 4,526,898
Credit Contracts (a)	—	33,289	33,289
Foreign Exchange Contracts (b)	124,972	—	124,972
	$ 124,972	**$ 4,560,187**	**$ 4,685,159**

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

(a) Includes cumulative appreciation of 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	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ (2,336,007)	$ (451,703)	$ (2,787,710)
Foreign Exchange Contracts (b)	(71,432)	—	—	(71,432)
	$ (71,432)	**$ (2,336,007)**	**$ (451,703)**	**$ (2,859,142)**

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

(a) 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.

(b) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2016 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)	$ (12,713)	$ —	$ 292,295	$ 311,295	$ 590,877
Credit Contracts (b)	—	—	17,566	—	17,566
Foreign Exchange Contracts (c)	—	64,620	—	—	64,620
	$ (12,713)	**$ 64,620**	**$ 309,861**	**$ 311,295**	**$ 673,063**

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)	$ (34,889)	$ —	$ 1,697,877	$ (325,687)	$ 1,337,301
Credit Contracts (b)	—	—	35,469	—	35,469
Foreign Exchange Contracts (c)	—	(421,335)	—	—	(421,335)
	$ (34,889)	**$ (421,335)**	**$ 1,733,346**	**$ (325,687)**	**$ 951,435**

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, 2016, 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
Barclays Bank PLC	$ 24,455	$ —	$ —	$ 24,455
Macquarie Bank Ltd.	100,517	(71,432)	—	29,085
	$ 124,972	**$ (71,432)**	**$ —**	**$ 53,540**

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
Macquarie Bank Ltd.	$ 71,432	$ (71,432)	$ —	$ —

C. Purchases and Sales of Securities

During the six months ended June 30, 2016, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $131,609,202 and $126,703,861, respectively. Purchases and sales of U.S. Treasury obligations aggregated $17,304,027 and $26,771,157, respectively.

For the six months ended June 30, 2016, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	9,800,000	$ 155,100
Options bought back	(7,800,000)	(132,650)
Options expired	(2,000,000)	(22,450)
Outstanding, end of period	**—**	**$ —**

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, 2016, 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, 2016 through April 30, 2017, 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 0.64%.

For the six months ended June 30, 2016, fees waived and/or expenses reimbursed were $39,405.

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, 2016, the Administration Fee was $39,693, of which $6,562 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $287, of which $142 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $7,476, of which $6,977 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $673.

E. Ownership of the Fund

At June 30, 2016, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, owning 34%, 27%, 14% and 10%, 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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$1,070.80
Expenses Paid per $1,000*	$ 3.35

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$1,021.63
Expenses Paid per $1,000*	$ 3.27

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series I — Deutsche Bond VIP	.65%

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 Bond VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 1st 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-, three- and five-year periods ended December 31, 2014.

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, 2014). 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, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM manages an institutional account comparable to the Fund, but that Deutsche AWM does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to 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. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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 Management

VS1bond-3 (R-028373-5 8/16)

Deutsche
Asset Management

June 30, 2016

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.

Deutsche Asset Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

Performance Summary

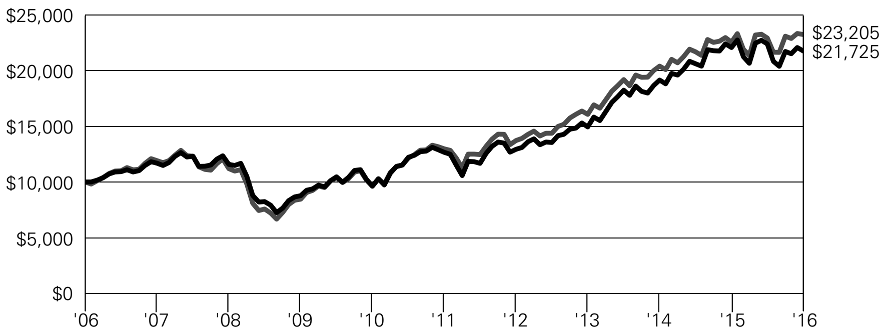
June 30, 2016 (Unaudited)

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, 2016 are 0.49% and 0.76% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment

■ **Deutsche Capital Growth VIP — Class A**
■ **Russell 1000® Growth Index**



Yearly periods ended June 30

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	$9,714	$9,857	$14,546	$17,166	$21,725
	Average annual total return	–2.86%	–1.43%	13.31%	11.41%	8.07%
Russell 1000 Growth Index	Growth of $10,000	$10,136	$10,302	$14,456	$17,898	$23,205
	Average annual total return	1.36%	3.02%	13.07%	12.35%	8.78%

Deutsche Capital Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,700	$9,830	$14,418	$16,906	$21,038
	Average annual total return	–3.00%	–1.70%	12.97%	11.07%	7.72%
Russell 1000 Growth Index	Growth of $10,000	$10,136	$10,302	$14,456	$17,898	$23,205
	Average annual total return	1.36%	3.02%	13.07%	12.35%	8.78%

The growth of $10,000 is cumulative.

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

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/16**	**12/31/15**
Common Stocks	99%	98%
Cash Equivalents	1%	2%
Convertible Preferred Stocks	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks and Convertible Preferred Stocks)	**6/30/16**	**12/31/15**
Information Technology	28%	28%
Consumer Discretionary	20%	22%
Health Care	18%	18%
Industrials	11%	11%
Consumer Staples	11%	10%
Financials	5%	5%
Materials	4%	3%
Telecommunication Services	2%	1%
Energy	1%	1%
Utilities	0%	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 99.0%		
Consumer Discretionary 19.9%		
Hotels, Restaurants & Leisure 1.5%		
Brinker International, Inc. (a)	151,490	6,897,340
Las Vegas Sands Corp.	100,571	4,373,833
		11,271,173
Household Durables 0.8%		
Newell Brands, Inc.	133,837	**6,500,463**
Internet & Catalog Retail 3.0%		
Amazon.com, Inc.*	31,387	**22,461,165**
Media 5.3%		
Comcast Corp. "A" (a)	176,367	11,497,365
Time Warner, Inc.	96,866	7,123,525
Walt Disney Co.	216,900	21,217,158
		39,838,048
Multiline Retail 0.8%		
Dollar General Corp.	61,263	**5,758,722**
Specialty Retail 5.5%		
Home Depot, Inc.	175,468	22,405,509
L Brands, Inc.	144,561	9,704,380
O'Reilly Automotive, Inc.* (a)	35,156	9,530,791
		41,640,680
Textiles, Apparel & Luxury Goods 3.0%		
NIKE, Inc. "B"	262,368	14,482,714
VF Corp.	140,968	8,668,122
		23,150,836
Consumer Staples 10.9%		
Beverages 1.9%		
PepsiCo, Inc.	136,812	**14,493,863**
Food & Staples Retailing 3.6%		
Costco Wholesale Corp. (a)	54,684	8,587,575
CVS Health Corp.	148,970	14,262,388
Rite Aid Corp.*	529,314	3,964,562
		26,814,525
Food Products 4.7%		
Mead Johnson Nutrition Co.	105,958	9,615,689
Mondelez International, Inc. "A"	167,691	7,631,617
The JM Smucker Co.	39,440	6,011,050
The WhiteWave Foods Co.*	268,491	12,602,968
		35,861,324
Personal Products 0.7%		
Estee Lauder Companies, Inc. "A"	60,678	**5,522,912**
Energy 1.0%		
Energy Equipment & Services 0.3%		
Halliburton Co.	52,283	**2,367,897**
Oil, Gas & Consumable Fuels 0.7%		
Concho Resources, Inc.*	46,680	**5,567,524**
Financials 4.7%		
Banks 0.6%		
SVB Financial Group*	48,999	**4,662,745**
Capital Markets 0.6%		
The Charles Schwab Corp.	166,196	**4,206,421**
Diversified Financial Services 1.0%		
Intercontinental Exchange, Inc.	29,420	**7,530,343**

	Shares	Value ($)
Real Estate Investment Trusts 2.5%		
Digital Realty Trust, Inc. (REIT) (a)	103,865	11,320,246
Prologis, Inc. (REIT)	154,715	7,587,224
		18,907,470
Health Care 17.9%		
Biotechnology 8.9%		
Alexion Pharmaceuticals, Inc.*	23,299	2,720,391
Biogen, Inc.*	20,942	5,064,194
BioMarin Pharmaceutical, Inc.*	43,800	3,407,640
Celgene Corp.*	181,993	17,949,970
Gilead Sciences, Inc.	194,437	16,219,935
Medivation, Inc.*	216,986	13,084,256
Shire PLC (ADR)	47,156	8,680,476
		67,126,862
Health Care Equipment & Supplies 2.0%		
Becton, Dickinson & Co.	47,709	8,090,969
The Cooper Companies, Inc.	39,582	6,791,084
		14,882,053
Health Care Providers & Services 2.9%		
Cigna Corp.	93,427	11,957,722
McKesson Corp.	53,990	10,077,233
		22,034,955
Life Sciences Tools & Services 1.8%		
Thermo Fisher Scientific, Inc.	94,035	**13,894,612**
Pharmaceuticals 2.3%		
Allergan PLC*	60,117	13,892,437
Bristol-Myers Squibb Co.	51,652	3,799,005
		17,691,442
Industrials 10.9%		
Aerospace & Defense 3.2%		
BE Aerospace, Inc.	160,673	7,419,076
Boeing Co. (a)	99,380	12,906,480
TransDigm Group, Inc.*	15,969	4,210,866
		24,536,422
Commercial Services & Supplies 0.7%		
Stericycle, Inc.*	52,435	**5,459,532**
Electrical Equipment 2.1%		
Acuity Brands, Inc.	19,894	4,932,916
AMETEK, Inc.	237,528	10,980,920
		15,913,836
Industrial Conglomerates 2.7%		
Danaher Corp.	97,436	9,841,036
Roper Technologies, Inc.	60,923	10,391,027
		20,232,063
Machinery 0.5%		
Parker-Hannifin Corp.	38,594	**4,170,082**
Professional Services 0.7%		
Equifax, Inc.	40,519	**5,202,639**
Road & Rail 1.0%		
Norfolk Southern Corp.	87,177	**7,421,378**
Information Technology 27.7%		
Internet Software & Services 6.1%		
Alphabet, Inc. "A"*	22,176	15,601,481
Alphabet, Inc. "C"*	22,321	15,448,364
Facebook, Inc. "A"*	131,117	14,984,051
		46,033,896

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

	Shares	Value ($)
IT Services 5.3%		
Cognizant Technology Solutions Corp. "A"*	114,020	6,526,505
Fidelity National Information Services, Inc.	126,713	9,336,214
Global Payments, Inc.	58,315	4,162,524
Visa, Inc. "A" (a)	275,316	20,420,188
		40,445,431
Semiconductors & Semiconductor Equipment 2.8%		
Broadcom Ltd.	61,947	9,626,564
NVIDIA Corp. (a)	160,632	7,551,310
NXP Semiconductors NV*	54,553	4,273,682
		21,451,556
Software 7.7%		
Adobe Systems, Inc.*	88,437	8,471,380
Intuit, Inc.	44,191	4,932,158
Microsoft Corp.	593,582	30,373,591
Oracle Corp.	244,724	10,016,553
Splunk, Inc.*	82,100	4,448,178
		58,241,860
Technology Hardware, Storage & Peripherals 5.8%		
Apple, Inc.	460,322	**44,006,783**
Materials 3.8%		
Chemicals 2.0%		
Albemarle Corp. (a)	91,756	7,277,168
PPG Industries, Inc.	76,543	7,971,954
		15,249,122
Construction Materials 1.1%		
Vulcan Materials Co.	64,288	**7,737,704**
Containers & Packaging 0.7%		
Sealed Air Corp.	118,814	**5,461,879**
Telecommunication Services 1.7%		
Diversified Telecommunication Services		
Level 3 Communications, Inc.*	113,434	5,840,717
Zayo Group Holdings, Inc.*	238,927	6,673,231
		12,513,948
Utilities 0.5%		
Water Utilities		
American Water Works Co., Inc.	40,416	**3,415,556**
Total Common Stocks (Cost $487,079,178)		**749,679,722**
Convertible Preferred Stocks 0.3%		
Health Care 0.2%		
Allergan PLC, Series A, 5.5%	1,100	916,982
Teva Pharmaceutical Industries Ltd., 7.0%	934	772,418
		1,689,400
Industrials 0.1%		
Stericycle, Inc. Series A, 5.25%	3,000	**249,540**
Total Convertible Preferred Stocks (Cost $2,334,000)		**1,938,940**
Securities Lending Collateral 5.0%		
Daily Assets Fund "Capital Shares", 0.51% (b) (c) (Cost $38,233,468)	38,233,468	**38,233,468**
Cash Equivalents 0.8%		
Deutsche Central Cash Management Government Fund, 0.44% (b) (Cost $6,256,291)	6,256,291	**6,256,291**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $533,902,937)†	105.1	**796,108,421**
Other Assets and Liabilities, Net	(5.1)	**(38,467,962)**
Net Assets	100.0	**757,640,459**

* Non-income producing security.

† The cost for federal income tax purposes was $534,601,303. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $261,507,118. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $277,568,670 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $16,061,552.

(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, 2016 amounted to $37,179,048, which is 4.9% of net assets.

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

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

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

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, 2016 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)	$ 749,679,722	$ —	$ —	$ 749,679,722
Convertible Preferred Stocks (d)	1,938,940	—	—	1,938,940
Short-Term Investments (d)	44,489,759	—	—	44,489,759
Total	**$ 796,108,421**	**$ —**	**$ —**	**$ 796,108,421**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(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, 2016 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $489,413,178) — including $37,179,048 of securities loaned	$	751,618,662
Investment in Daily Assets Fund (cost $38,233,468)*		38,233,468
Investment in Deutsche Central Cash Management Government Fund (cost $6,256,291)		6,256,291
Total investments in securities, at value (cost $533,902,937)		796,108,421
Receivable for Fund shares sold		173,827
Dividends receivable		207,633
Interest receivable		7,041
Other assets		4,851
Total assets		796,501,773
Liabilities		
Payable upon return of securities loaned		38,233,468
Payable for Fund shares redeemed		246,493
Accrued management fee		234,819
Accrued Trustees' fees		1,912
Other accrued expenses and payables		144,622
Total liabilities		38,861,314
Net assets, at value	**$**	**757,640,459**
Net Assets Consist of		
Undistributed net investment income		2,905,238
Net unrealized appreciation (depreciation) on Investments		262,205,484
Accumulated net realized gain (loss)		22,115,640
Paid-in capital		470,414,097
Net assets, at value	**$**	**757,640,459**
Class A		
Net Asset Value, offering and redemption price per share ($752,730,016 ÷ 30,254,424 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**24.88**
Class B		
Net Asset Value, offering and redemption price per share ($4,910,443 ÷ 197,811 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**24.82**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $5,122)	$	4,746,781
Income distributions — Deutsche Central Cash Management Government Fund		11,815
Interest		2,119
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		29,374
Total income		4,790,089
Expenses:		
Management fee		1,428,616
Administration fee		382,887
Services to shareholders		1,935
Record keeping fee (Class B)		98
Distribution and service fees (Class B)		4,810
Custodian fee		11,416
Professional fees		38,112
Reports to shareholders		22,650
Trustees' fees and expenses		17,488
Other		18,134
Total expenses		1,926,146
Net investment income (loss)		**2,863,943**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from Investments		31,207,105
Change in net unrealized appreciation (depreciation) on investments		(60,751,043)
Net gain (loss)		**(29,543,938)**
Net increase (decrease) in net assets resulting from operations	**$**	**(26,679,995)**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income (loss)	$ 2,863,943	$ 6,307,809
Net realized gain (loss)	31,207,105	73,261,776
Change in net unrealized appreciation (depreciation)	(60,751,043)	(4,793,723)
Net increase (decrease) in net assets resulting from operations	(26,679,995)	74,775,862
Distributions to shareholders from:		
Net investment income:		
Class A	(6,231,720)	(6,323,352)
Class B	(20,032)	(12,995)
Net realized gains:		
Class A	(66,067,535)	(117,055,763)
Class B	(322,737)	(434,436)
Total distributions	(72,642,024)	(123,826,546)
Fund share transactions:		
Class A		
Proceeds from shares sold	10,325,745	45,298,331
Reinvestment of distributions	72,299,255	123,379,115
Payments for shares redeemed	(80,000,634)	(161,179,658)
Net increase (decrease) in net assets from Class A share transactions	2,624,366	7,497,788
Class B		
Proceeds from shares sold	2,371,475	1,114,466
Reinvestment of distributions	342,769	447,431
Payments for shares redeemed	(939,627)	(1,187,018)
Net increase (decrease) in net assets from Class B share transactions	1,774,617	374,879
Increase (decrease) in net assets	(94,923,036)	(41,178,017)
Net assets at beginning of period	852,563,495	893,741,512
Net assets at end of period (including undistributed net investment income of $2,905,238 and $6,293,047, respectively)	**$ 757,640,459**	**$ 852,563,495**

Other Information		
Class A		
Shares outstanding at beginning of period	30,084,968	29,731,475
Shares sold	390,541	1,580,052
Shares issued to shareholders in reinvestment of distributions	2,877,010	4,417,441
Shares redeemed	(3,098,095)	(5,644,000)
Net increase (decrease) in Class A shares	169,456	353,493
Shares outstanding at end of period	**30,254,424**	**30,084,968**
Class B		
Shares outstanding at beginning of period	127,214	113,396
Shares sold	93,621	38,768
Shares issued to shareholders in reinvestment of distributions	13,667	16,048
Shares redeemed	(36,691)	(40,998)
Net increase (decrease) in Class B shares	70,597	13,818
Shares outstanding at end of period	**197,811**	**127,214**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$28.22**	**$29.95**	**$28.41**	**$21.38**	**$18.58**	**$19.59**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.10	.20	.21	.21	.28	.17
Net realized and unrealized gain (loss)	(.88)	2.34	3.18	7.12	2.70	(1.03)
Total from investment operations	(.78)	2.54	3.39	7.33	2.98	(.86)
Less distributions from:						
Net investment income	(.22)	(.22)	(.18)	(.30)	(.18)	(.15)
Net realized gains	(2.34)	(4.05)	(1.67)	—	—	—
Total distributions	(2.56)	(4.27)	(1.85)	(.30)	(.18)	(.15)
Net asset value, end of period	**$24.88**	**$28.22**	**$29.95**	**$28.41**	**$21.38**	**$18.58**
Total Return (%)	(2.86)**	8.62	12.97	34.65	16.05	(4.47)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	753	849	890	837	701	677
Ratio of expenses (%)	.50*	.49	.50	.50	.50	.50
Ratio of net investment income (loss) (%)	.75*	.70	.76	.85	1.32	.86
Portfolio turnover rate (%)	24**	35	47	37	25	47

a Based on average shares outstanding during the period.
* Annualized
** Not annualized

Class B	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$28.12**	**$29.84**	**$28.29**	**$21.29**	**$18.51**	**$19.51**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.06	.13	.09	.13	.20	.10
Net realized and unrealized gain (loss)	(.87)	2.32	3.22	7.10	2.69	(1.02)
Total from investment operations	(.81)	2.45	3.31	7.23	2.89	(.92)
Less distributions from:						
Net investment income	(.15)	(.12)	(.09)	(.23)	(.11)	(.08)
Net realized gains	(2.34)	(4.05)	(1.67)	—	—	—
Total distributions	(2.49)	(4.17)	(1.76)	(.23)	(.11)	(.08)
Net asset value, end of period	**$24.82**	**$28.12**	**$29.84**	**$28.29**	**$21.29**	**$18.51**
Total Return (%)	(3.00)**	8.33	12.67	34.19	15.61	(4.76)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	5	4	3	14	13	13
Ratio of expenses (%)	.76*	.76	.80	.83	.83	.84
Ratio of net investment income (loss) (%)	.50*	.44	.33	.52	.97	.52
Portfolio turnover rate (%)	24**	35	47	37	25	47

a Based on average shares outstanding during the period.
* Annualized
** Not annualized

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (the "Trust") 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 Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® 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 Trust 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. 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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. 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. The 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, 2015, the Fund had a net tax basis capital loss carryforward of approximately $8,161,000 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, 2015 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 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, 2016, purchases and sales of investment securities (excluding short-term investments) aggregated $183,157,472 and $239,431,356, 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, 2016, 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, 2016 through September 30, 2016, 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	.79%
Class B	1.05%

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, 2016, the Administration Fee was $382,887, of which $62,931 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2016
Class A	$ 410	$ 205
Class B	98	49
	$ 508	**$ 254**

Distribution Service Agreement. Deutsche AM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trust's 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, 2016, the Distribution Service Fee aggregated $4,810, of which $1,017 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,307, of which $4,742 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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 lending agent for the Fund. For the six months ended June 30, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $2,585.

D. Ownership of the Fund

At June 30, 2016, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 48%, 27% 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 48% and 43%, 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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$ 971.40	$ 970.00
Expenses Paid per $1,000*	$ 2.45	$ 3.72
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,022.38	$1,021.08
Expenses Paid per $1,000*	$ 2.51	$ 3.82

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

Annualized Expense Ratios	**Class A**	**Class B**
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 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 Capital Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 1st quartile, 2nd 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 three-year period and has underperformed its benchmark in the one- and five-year periods ended December 31, 2014.

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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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

Notes

Deutsche
Asset Management

VS1capgro-3 (R-028374-5 8/16)

Deutsche
Asset Management

June 30, 2016

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.

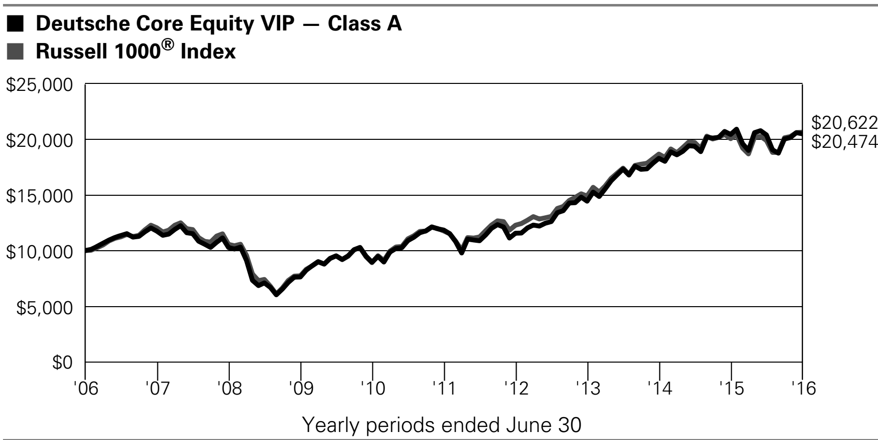
Performance Summary

June 30, 2016 (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, 2016 are 0.56% and 0.83% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment



The Russell 1000® 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	$10,049	$10,026	$14,187	$17,281	$20,474
	Average annual total return	0.49%	0.26%	12.37%	11.56%	7.43%
Russell 1000® Index	Growth of $10,000	$10,374	$10,293	$13,854	$17,531	$20,622
	Average annual total return	3.74%	2.93%	11.48%	11.88%	7.51%

Deutsche Core Equity VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,043	$10,006	$14,083	$17,057	$19,985
	Average annual total return	0.43%	0.06%	12.09%	11.27%	7.17%
Russell 1000® Index	Growth of $10,000	$10,374	$10,293	$13,854	$17,531	$20,622
	Average annual total return	3.74%	2.93%	11.48%	11.88%	7.51%

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)	**6/30/16**	**12/31/15**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
Convertible Preferred Stocks	0%	0%
Convertible Bond	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks, Convertible Bond and Convertible Preferred Stocks)	**6/30/16**	**12/31/15**
Information Technology	20%	20%
Health Care	17%	16%
Financials	15%	15%
Consumer Discretionary	13%	14%
Industrials	11%	11%
Consumer Staples	10%	10%
Energy	7%	6%
Materials	3%	4%
Utilities	3%	3%
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 98.7%		
Consumer Discretionary 13.0%		
Auto Components 0.5%		
BorgWarner, Inc.	27,030	**797,926**
Automobiles 0.1%		
Ferrari NV	3,326	**136,133**
Hotels, Restaurants & Leisure 1.3%		
Brinker International, Inc.	30,383	1,383,338
Las Vegas Sands Corp.	14,858	646,174
		2,029,512
Household Durables 0.5%		
Newell Brands, Inc.	18,277	**887,714**
Internet & Catalog Retail 1.7%		
Amazon.com, Inc.*	3,735	**2,672,841**
Media 3.1%		
Comcast Corp. "A"	25,341	1,651,980
Time Warner, Inc.	20,373	1,498,231
Walt Disney Co.	17,948	1,755,673
		4,905,884
Specialty Retail 4.2%		
Advance Auto Parts, Inc.	12,697	2,052,216
Home Depot, Inc.	22,180	2,832,164
L Brands, Inc.	26,599	1,785,591
		6,669,971
Textiles, Apparel & Luxury Goods 1.6%		
NIKE, Inc. "B"	31,475	1,737,420
VF Corp.	14,750	906,977
		2,644,397
Consumer Staples 10.2%		
Beverages 1.4%		
PepsiCo, Inc.	21,107	**2,236,076**
Food & Staples Retailing 3.6%		
Costco Wholesale Corp.	8,872	1,393,259
CVS Health Corp.	15,438	1,478,034
Kroger Co.	46,847	1,723,501
Rite Aid Corp.*	152,539	1,142,517
		5,737,311
Food Products 4.7%		
ConAgra Foods, Inc.	36,360	1,738,372
Mead Johnson Nutrition Co.	18,038	1,636,948
The JM Smucker Co.	12,171	1,854,982
The WhiteWave Foods Co.*	48,069	2,256,359
		7,486,661
Personal Products 0.5%		
Estee Lauder Companies, Inc. "A"	10,069	**916,480**
Energy 6.9%		
Energy Equipment & Services 1.0%		
Halliburton Co.	34,753	**1,573,963**
Oil, Gas & Consumable Fuels 5.9%		
Anadarko Petroleum Corp.	20,027	1,066,438
Chevron Corp.	17,015	1,783,682
Concho Resources, Inc.*	11,157	1,330,695
EOG Resources, Inc.	15,861	1,323,125
Hess Corp.	16,507	992,071

	Shares	Value ($)
Occidental Petroleum Corp.	27,178	2,053,570
Phillips 66	12,289	975,009
		9,524,590
Financials 14.2%		
Banks 5.9%		
Citigroup, Inc.	48,475	2,054,855
JPMorgan Chase & Co.	78,618	4,885,323
U.S. Bancorp.	64,201	2,589,226
		9,529,404
Capital Markets 1.9%		
Ameriprise Financial, Inc.	16,301	1,464,645
Bank of New York Mellon Corp.	39,942	1,551,747
		3,016,392
Insurance 2.5%		
Chubb Ltd.	18,174	2,375,523
MetLife, Inc.	41,418	1,649,679
		4,025,202
Real Estate Investment Trusts 3.9%		
Digital Realty Trust, Inc. (REIT) (a)	31,378	3,419,888
Prologis, Inc. (REIT)	56,764	2,783,707
		6,203,595
Health Care 16.5%		
Biotechnology 5.7%		
Biogen, Inc.*	2,970	718,206
Celgene Corp.*	26,667	2,630,166
Gilead Sciences, Inc.	32,152	2,682,120
Medivation, Inc.*	24,510	1,477,953
Shire PLC (ADR)	8,598	1,582,720
		9,091,165
Health Care Equipment & Supplies 1.7%		
Becton, Dickinson & Co.	16,132	**2,735,826**
Health Care Providers & Services 1.8%		
Cigna Corp.	13,196	1,688,956
McKesson Corp.	5,888	1,098,995
		2,787,951
Life Sciences Tools & Services 1.7%		
Thermo Fisher Scientific, Inc.	18,766	**2,772,864**
Pharmaceuticals 5.6%		
Allergan PLC*	8,730	2,017,416
Bristol-Myers Squibb Co.	23,863	1,755,124
Merck & Co., Inc.	30,727	1,770,182
Pfizer, Inc.	95,553	3,364,421
		8,907,143
Industrials 10.6%		
Aerospace & Defense 3.1%		
Boeing Co.	18,832	2,445,712
Honeywell International, Inc.	14,092	1,639,181
TransDigm Group, Inc.*	3,391	894,173
		4,979,066
Electrical Equipment 1.9%		
AMETEK, Inc.	48,752	2,253,805
Regal Beloit Corp.	15,896	875,075
		3,128,880
Industrial Conglomerates 2.8%		
General Electric Co.	66,518	2,093,987
Roper Technologies, Inc.	13,571	2,314,670
		4,408,657

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

	Shares	Value ($)
Machinery 1.4%		
Ingersoll-Rand PLC	16,110	1,025,885
Parker-Hannifin Corp.	10,649	1,150,624
		2,176,509
Road & Rail 1.4%		
Norfolk Southern Corp.	25,862	**2,201,632**
Information Technology 19.6%		
Communications Equipment 1.1%		
Cisco Systems, Inc.	64,671	**1,855,411**
Internet Software & Services 3.9%		
Alphabet, Inc. "A"*	3,518	2,475,019
Alphabet, Inc. "C"*	3,093	2,140,665
Facebook, Inc. "A"*	14,471	1,653,746
		6,269,430
IT Services 3.6%		
Cognizant Technology Solutions Corp. "A"*	24,275	1,389,501
Fidelity National Information Services, Inc.	18,610	1,371,185
Visa, Inc. "A"	40,576	3,009,522
		5,770,208
Semiconductors & Semiconductor Equipment 2.5%		
Broadcom Ltd.	11,838	1,839,625
NVIDIA Corp.	26,941	1,266,496
NXP Semiconductors NV*	10,555	826,879
		3,933,000
Software 5.4%		
Intuit, Inc.	9,993	1,115,319
Microsoft Corp.	108,820	5,568,319
Oracle Corp.	46,157	1,889,206
		8,572,844
Technology Hardware, Storage & Peripherals 3.1%		
Apple, Inc.	51,190	**4,893,764**
Materials 3.4%		
Chemicals 1.4%		
Albemarle Corp.	16,725	1,326,460
Ecolab, Inc.	7,569	897,683
		2,224,143
Construction Materials 0.9%		
Vulcan Materials Co.	12,378	**1,489,816**
Containers & Packaging 1.1%		
Sealed Air Corp.	36,879	**1,695,328**
Telecommunication Services 1.3%		
Wireless Telecommunication Services		
T-Mobile U.S., Inc.*	46,897	**2,029,233**

	Shares	Value ($)
Utilities 3.0%		
Electric Utilities 1.3%		
NextEra Energy, Inc.	16,236	**2,117,174**
Water Utilities 1.7%		
American Water Works Co., Inc.	32,153	**2,717,250**
Total Common Stocks (Cost $127,097,132)		**157,751,346**
	Principal Amount ($)	**Value ($)**
Convertible Bond 0.2%		
Consumer Discretionary		
Fiat Chrysler Automobiles NV, 7.875%, 12/15/2016 (Cost $366,520)	440,000	**263,450**
	Shares	**Value ($)**
Convertible Preferred Stocks 0.3%		
Health Care 0.2%		
Allergan PLC, Series A, 5.5%	300	250,086
Teva Pharmaceutical Industries Ltd., 7.0%	212	175,324
		425,410
Industrials 0.1%		
Stericycle, Inc., Series A, 5.25%	1,000	**83,180**
Total Convertible Preferred Stocks (Cost $612,000)		**508,590**
Securities Lending Collateral 2.2%		
Daily Assets Fund "Capital Shares", 0.51% (b) (c) (Cost $3,432,572)	3,432,572	**3,432,572**
Cash Equivalents 0.8%		
Deutsche Central Cash Management Government Fund, 0.44% (b) (Cost $1,320,813)	1,320,813	**1,320,813**
	% of Net Assets	**Value ($)**
Total Investment Portfolio (Cost $132,829,037)†	102.2	**163,276,771**
Other Assets and Liabilities, Net	(2.2)	**(3,505,038)**
Net Assets	100.0	**159,771,733**

* Non-income producing security.

† The cost for federal income tax purposes was $132,972,976. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $30,303,795. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $34,576,186 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,272,391.

(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, 2016 amounted to $3,385,665, which is 2.1% 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

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, 2016 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)	$157,751,346	$ —	$ —	$157,751,346
Convertible Bond	—	263,450	—	263,450
Convertible Preferred Stocks (d)	508,590	—	—	508,590
Short-Term Investments (d)	4,753,385	—	—	4,753,385
Total	**$163,013,321**	**$ 263,450**	**$ —**	**$163,276,771**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(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, 2016 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $128,075,652) — including $3,385,665 of securities loaned	$ 158,523,386
Investment in Daily Assets Fund (cost $3,432,572)*	3,432,572
Investment in Deutsche Central Cash Management Government Fund (cost $1,320,813)	1,320,813
Total investments in securities, at value (cost $132,829,037)	163,276,771
Cash	15,155
Receivable for Fund shares sold	31,588
Dividends receivable	112,675
Interest receivable	1,828
Foreign taxes recoverable	2,509
Other assets	1,387
Total assets	163,441,913
Liabilities	
Payable upon return of securities loaned	3,432,572
Payable for Fund shares redeemed	102,637
Accrued management fee	51,430
Accrued Trustees' fees	474
Other accrued expenses and payables	83,067
Total liabilities	3,670,180
Net assets, at value	**$ 159,771,733**
Net Assets Consist of	
Undistributed net investment income	1,080,053
Net unrealized appreciation (depreciation) on investments	30,447,734
Accumulated net realized gain (loss)	286,601
Paid-in capital	127,957,345
Net assets, at value	**$ 159,771,733**
Class A	
Net Asset Value, offering and redemption price per share ($157,741,254 ÷ 13,176,480 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 11.97**
Class B	
Net Asset Value, offering and redemption price per share ($2,030,479 ÷ 169,646 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 11.97**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $3,299)	$ 1,452,195
Interest	64,916
Income distributions — Deutsche Central Cash Management Government Fund	2,280
Securities lending income, including income from Daily Assets Fund, net of borrower rebates	5,082
Total income	1,524,473
Expenses:	
Management fee	310,354
Administration fee	79,578
Services to shareholders	1,089
Record keeping fee (Class B)	283
Distribution service fee (Class B)	2,477
Custodian fee	9,436
Professional fees	35,294
Reports to shareholders	16,002
Trustees' fees and expenses	5,096
Other	5,336
Total expenses	464,945
Net investment income	**1,059,528**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from investments	551,574
Change in net unrealized appreciation (depreciation) on investments	(1,751,621)
Net gain (loss)	**(1,200,047)**
Net increase (decrease) in net assets resulting from operations	**$ (140,519)**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income	$ 1,059,528	$ 2,369,333
Net realized gain (loss)	551,574	14,502,719
Change in net unrealized appreciation (depreciation)	(1,751,621)	(5,598,072)
Net increase (decrease) in net assets resulting from operations	(140,519)	11,273,980
Distributions to shareholders from:		
Net investment income:		
Class A	(2,276,718)	(1,815,630)
Class B	(23,854)	(11,196)
Net realized gains:		
Class A	(14,473,682)	(491,871)
Class B	(187,911)	(4,384)
Total distributions	(16,962,165)	(2,323,081)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,278,753	9,787,413
Reinvestment of distributions	16,750,400	2,307,501
Payments for shares redeemed	(19,461,813)	(65,202,089)
Net increase (decrease) in net assets from Class A share transactions	(1,432,660)	(53,107,175)
Class B		
Proceeds from shares sold	102,348	435,534
Reinvestment of distributions	211,765	15,580
Payments for shares redeemed	(133,255)	(285,169)
Net increase (decrease) in net assets from Class B share transactions	180,858	165,945
Increase (decrease) in net assets	(18,354,486)	(43,990,331)
Net assets at beginning of period	178,126,219	222,116,550
Net assets at end of period (including undistributed net investment income of $1,080,053 and $2,321,097, respectively)	**$ 159,771,733**	**$ 178,126,219**

Other Information		
Class A		
Shares outstanding at beginning of period	13,252,114	17,268,971
Shares sold	103,983	745,068
Shares issued to shareholders in reinvestment of distributions	1,400,535	173,366
Shares redeemed	(1,580,152)	(4,935,291)
Net increase (decrease) in Class A shares	(75,634)	(4,016,857)
Shares outstanding at end of period	**13,176,480**	**13,252,114**
Class B		
Shares outstanding at beginning of period	154,548	142,262
Shares sold	8,413	32,766
Shares issued to shareholders in reinvestment of distributions	17,691	1,171
Shares redeemed	(11,006)	(21,651)
Net increase (decrease) in Class B shares	15,098	12,286
Shares outstanding at end of period	**169,646**	**154,548**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$13.29**	**$12.76**	**$11.54**	**$ 8.53**	**$ 7.46**	**$ 7.56**
Income (loss) from investment operations:						
Net investment income[a]	.08	.15	.10	.12	.15	.10
Net realized and unrealized gain (loss)	(.01)	.52	1.25	3.03	1.03	(.10)
Total from investment operations	.07	.67	1.35	3.15	1.18	.00
Less distributions from:						
Net investment income	(.19)	(.11)	(.13)	(.14)	(.11)	(.10)
Net realized gains	(1.20)	(.03)	—	—	—	—
Total distributions	(1.39)	(.14)	(.13)	(.14)	(.11)	(.10)
Net asset value, end of period	**$11.97**	**$13.29**	**$12.76**	**$11.54**	**$ 8.53**	**$ 7.46**
Total Return (%)	.49**	5.25	11.82	37.33	15.81	(.14)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	158	176	220	223	180	85
Ratio of expenses (%)	.58*	.56	.57	.56	.59	.63
Ratio of net investment income (%)	1.33*	1.11	.86	1.20	1.90	1.25
Portfolio turnover rate (%)	20**	27	48	238	307	215

a Based on average shares outstanding during the period.
* Annualized
** Not annualized

Class B	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$13.26**	**$12.74**	**$11.53**	**$ 8.51**	**$ 7.45**	**$ 7.55**
Income (loss) from investment operations:						
Net investment income[a]	.06	.11	.07	.10	.11	.08
Net realized and unrealized gain (loss)	(.00)***	.52	1.24	3.03	1.03	(.10)
Total from investment operations	.06	.63	1.31	3.13	1.14	(.02)
Less distributions from:						
Net investment income	(.15)	(.08)	(.10)	(.11)	(.08)	(.08)
Net realized gains	(1.20)	(.03)	—	—	—	—
Total distributions	(1.35)	(.11)	(.10)	(.11)	(.08)	(.08)
Net asset value, end of period	**$11.97**	**$13.26**	**$12.74**	**$11.53**	**$ 8.51**	**$ 7.45**
Total Return (%)	.43**	4.91	11.52	37.10	15.41	(.40)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	2	2	2	2	2	2
Ratio of expenses (%)	.86*	.83	.82	.76	.90	.88
Ratio of net investment income (%)	1.06*	.84	.60	1.00	1.41	.99
Portfolio turnover rate (%)	20**	27	48	238	307	215

a Based on average shares outstanding during the period.
* Annualized
** Not annualized
*** Amount is less than $.005.

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (the "Trust") 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 Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® 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 Trust 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. 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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. 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. The 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, 2015 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 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, 2016, purchases and sales of investment securities (excluding short-term investments) aggregated $32,348,299 and $50,101,313, 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, 2016, 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, 2016 through September 30, 2016, 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	.81%
Class B	1.06%

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, 2016, the Administration Fee was $79,578, of which $13,187 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at June 30, 2016**
Class A	$ 307	$ 152
Class B	54	27
	$ 361	**$ 179**

Distribution Service Agreement. Deutsche AM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trust's 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, 2016, the Distribution Service Fee aggregated $2,477, of which $418 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,600, of which $5,442 is unpaid.

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

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 36%, 35% and 10%, respectively. Three participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 65%, 14% 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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,004.90	$1,004.30
Expenses Paid per $1,000*	$ 2.89	$ 4.29

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,021.98	$1,020.59
Expenses Paid per $1,000*	$ 2.92	$ 4.32

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche Core Equity VIP	.58%	.86%

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

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

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 Core Equity VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 3rd quartile, 1st quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has

outperformed its benchmark in the three-year period and has underperformed its benchmark in the one- and five-year periods ended December 31, 2014.

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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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 Management

VS1coreq-3 (R-028376-5 8/16)

Deutsche
Asset Management

June 30, 2016

Semiannual Report

Deutsche Variable Series I

Deutsche CROCI® International VIP

Contents

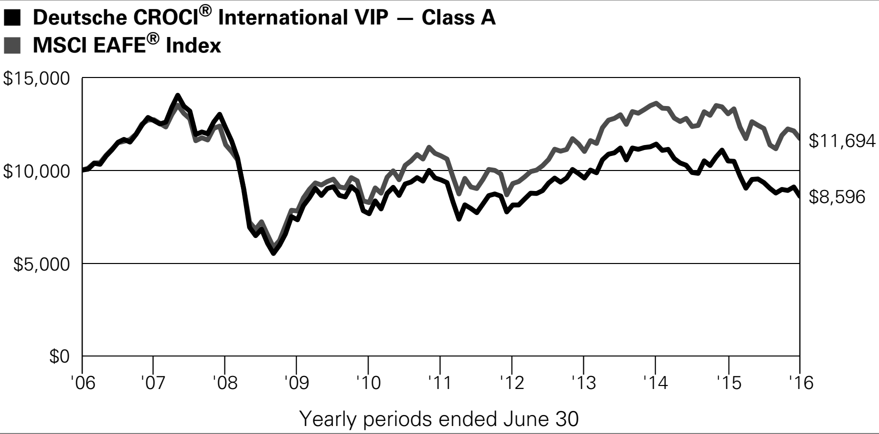
Performance Summary

June 30, 2016 (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, 2016 are 1.05% and 1.33% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment



MSCI EAFE Index is an unmanaged index that tracks international stock performance in the 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	$9,217	$8,197	$8,987	$9,076	$8,596
	Average annual total return	–7.83%	–18.03%	–3.50%	–1.92%	–1.50%
MSCI EAFE® Index	Growth of $10,000	$9,558	$8,984	$10,632	$10,868	$11,694
	Average annual total return	–4.42%	–10.16%	2.06%	1.68%	1.58%

Deutsche CROCI® International VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,195	$8,158	$8,908	$8,958	$8,366
	Average annual total return	–8.05%	–18.42%	–3.78%	–2.18%	–1.77%
MSCI EAFE® Index	Growth of $10,000	$9,558	$8,984	$10,632	$10,868	$11,694
	Average annual total return	–4.42%	–10.16%	2.06%	1.68%	1.58%

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)	**6/30/16**	**12/31/15**
Common Stocks	97%	99%
Cash Equivalents	3%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/16**	**12/31/15**
Japan	26%	23%
United Kingdom	24%	29%
Switzerland	21%	14%
Hong Kong	9%	6%
Singapore	4%	4%
Spain	4%	4%
France	4%	8%
Germany	4%	4%
Netherlands	2%	2%
Sweden	2%	2%
Denmark	—	2%
Australia	—	2%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/16**	**12/31/15**
Industrials	31%	30%
Consumer Discretionary	28%	30%
Utilities	22%	16%
Health Care	9%	8%
Materials	4%	10%
Information Technology	4%	4%
Consumer Staples	2%	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
John Moody
Portfolio Managers

	Shares	Value ($)
Common Stocks 93.8%		
France 3.8%		
Cie Generale des Etablissements Michelin	17,300	1,640,145
Sanofi	21,702	1,805,550
(Cost $3,759,793)		**3,445,695**
Germany 3.8%		
Continental AG	8,438	1,592,252
Siemens AG (Registered)	17,540	1,794,113
(Cost $3,773,597)		**3,386,365**
Hong Kong 8.7%		
CLP Holdings Ltd.	198,649	2,030,839
HK Electric Investments & HK Electric Investments Ltd. "SS", 144A, (Units)	2,079,500	1,936,532
Hong Kong & China Gas Co., Ltd.	1,090,757	2,002,243
MTR Corp., Ltd.	374,731	1,905,590
(Cost $6,958,548)		**7,875,204**
Japan 23.8%		
Astellas Pharma, Inc.	135,800	2,122,546
Bridgestone Corp.	49,408	1,572,375
Citizen Holdings Co., Ltd.	325,700	1,575,597
Denso Corp.	47,850	1,671,313
Isuzu Motors Ltd.	170,000	2,076,842
JGC Corp.	107,793	1,531,174
Mitsubishi Electric Corp.	170,000	2,013,383
Osaka Gas Co., Ltd.	512,000	1,956,819
Secom Co., Ltd.	24,100	1,772,043
Tokyo Gas Co., Ltd.	419,000	1,717,753
Toyota Industries Corp.	41,735	1,647,936
Toyota Motor Corp.	35,900	1,774,507
(Cost $22,921,925)		**21,432,288**
Netherlands 2.0%		
Koninklijke DSM NV (Cost $2,026,634)	30,273	**1,754,619**
Singapore 4.0%		
Keppel Corp., Ltd.	458,016	1,887,277
Singapore Airlines Ltd.	220,041	1,746,273
(Cost $4,540,910)		**3,633,550**
Spain 3.9%		
Gas Natural SDG SA (a)	89,137	1,753,072
Iberdrola SA	263,380	1,783,975
(Cost $4,032,773)		**3,537,047**
Sweden 1.9%		
Telefonaktiebolaget LM Ericsson "B" (Cost $2,533,083)	226,259	**1,729,849**
Switzerland 19.5%		
ABB Ltd. (Registered)*	88,535	1,742,283
Adecco Group AG (Registered)	28,133	1,414,854
Cie Financiere Richemont SA (Registered)	27,917	1,628,393
Kuehne + Nagel International AG (Registered)	12,998	1,818,923
Nestle SA (Registered)	25,010	1,930,919
Novartis AG (Registered)	24,241	1,993,354
Roche Holding AG (Genusschein)	7,332	1,931,565
Sika AG (Bearer)	442	1,848,943
Swatch Group AG (Bearer) (a)	5,496	1,598,039
Wolseley PLC	32,786	1,692,845
(Cost $18,822,518)		**17,600,118**
United Kingdom 22.4%		
BAE Systems PLC	265,204	1,870,599
Barratt Developments PLC	237,922	1,290,482
Bunzl PLC	62,553	1,923,866
easyJet PLC	84,725	1,235,682
ITV PLC	568,967	1,376,033
National Grid PLC	131,587	1,929,912
Next PLC	24,924	1,644,401
Persimmon PLC	64,212	1,249,892
Rolls-Royce Holdings PLC (Entitlement Shares)*	16,295,991	21,694
Severn Trent PLC	57,560	1,876,429
SSE PLC	84,280	1,756,875
Taylor Wimpey PLC	686,045	1,216,807
Travis Perkins PLC	68,751	1,362,751
Whitbread PLC	31,994	1,500,397
(Cost $26,876,333)		**20,255,820**
Total Common Stocks (Cost $96,246,114)		**84,650,555**
Securities Lending Collateral 3.8%		
Daily Assets Fund "Capital Shares", 0.51% (b) (c) (Cost $3,431,797)	3,431,797	**3,431,797**
Cash Equivalents 2.8%		
Deutsche Central Cash Management Government Fund, 0.44% (b) (Cost $2,514,051)	2,514,051	**2,514,051**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $102,191,962†)	100.4	**90,596,403**
Other Assets and Liabilities, Net	(0.4)	**(456,625)**
Net Assets	100.0	**90,139,778**

* Non-income producing security.

† The cost for federal income tax purposes was $103,006,374. At June 30, 2016, net unrealized depreciation for all securities based on tax cost was $12,409,971. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,704,769 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $15,114,740.

(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, 2016 amounted to $3,348,126, which is 3.7% 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.

As of June 30, 2016, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	139,651	SEK	1,188,642	7/29/2016	1,019	Morgan Stanley
USD	525,346	CHF	513,893	7/29/2016	1,937	Morgan Stanley
USD	289,349	EUR	261,337	7/29/2016	987	Morgan Stanley
USD	1,876,342	GBP	1,409,737	7/29/2016	858	Morgan Stanley
CHF	15,190,007	USD	15,634,555	7/29/2016	48,771	Morgan Stanley
EUR	236,140	USD	262,942	7/29/2016	598	Morgan Stanley
JPY	2,210,798,957	USD	21,691,469	7/29/2016	263,011	Morgan Stanley
GBP	19,005,007	USD	25,345,072	7/29/2016	38,089	Morgan Stanley
SGD	80,693	USD	59,899	7/29/2016	13	Morgan Stanley
Total unrealized appreciation					**355,283**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
AUD	14,452	USD	10,729	7/29/2016	(38)	Morgan Stanley
CHF	716,826	USD	733,210	7/29/2016	(2,293)	Morgan Stanley
DKK	66,501	USD	9,891	7/29/2016	(42)	Morgan Stanley
EUR	10,755,196	USD	11,895,068	7/29/2016	(53,592)	Morgan Stanley
HKD	61,557,728	USD	7,935,444	7/29/2016	(2,456)	Morgan Stanley
SEK	15,772,985	USD	1,856,916	7/29/2016	(9,739)	Morgan Stanley
SGD	4,733,727	USD	3,489,071	7/29/2016	(24,065)	Morgan Stanley
Total unrealized depreciation					**(92,225)**	

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, 2016 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				
France	$ —	$ 3,445,695	$ —	$ 3,445,695
Germany	—	3,386,365	—	3,386,365
Hong Kong	—	7,875,204	—	7,875,204
Japan	—	21,432,288	—	21,432,288
Netherlands	—	1,754,619	—	1,754,619
Singapore	—	3,633,550	—	3,633,550
Spain	—	3,537,047	—	3,537,047
Sweden	—	1,729,849	—	1,729,849
Switzerland	—	17,600,118	—	17,600,118
United Kingdom	21,694	20,234,126	—	20,255,820
Short-Term Investments (d)	5,945,848	—	—	5,945,848
Derivatives (e)				
Forward Foreign Currency Exchange Contracts	—	355,283	—	355,283
Total	**$ 5,967,542**	**$ 84,984,144**	**$ —**	**$ 90,951,686**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Level 2**
Derivatives (e)				
Forward Foreign Currency Exchange Contracts	$ —	$ (92,225)	$ —	$ (92,225)
Total	**$ —**	**$ (92,225)**	**$ —**	**$ (92,225)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(d) See Investment Portfolio for additional detailed categorizations.

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

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

Statement of Assets and Liabilities

as of June 30, 2016 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $96,246,114) — including $3,348,126 of securities loaned	$ 84,650,555
Investment in Daily Assets Fund (cost $3,431,797)*	3,431,797
Investment in Deutsche Central Cash Management Government Fund (cost $2,514,051)	2,514,051
Total investments, at value (cost $102,191,962)	90,596,403
Foreign currency, at value (cost $243,674)	243,068
Receivable for investments sold	1,664,920
Receivable for Fund shares sold	22,007
Dividends receivable	445,428
Interest receivable	1,663
Unrealized appreciation on forward foreign currency exchange contracts	355,283
Foreign taxes recoverable	474,211
Other assets	1,640
Total assets	93,804,623
Liabilities	
Payable upon return of securities loaned	3,431,797
Payable for Fund shares redeemed	11,190
Unrealized depreciation on forward foreign currency exchange contracts	92,225
Accrued management fee	9,899
Accrued Trustees' fees	293
Other accrued expenses and payables	119,441
Total liabilities	3,664,845
Net assets, at value	**$ 90,139,778**
Net Assets Consist of	
Undistributed net investment income	943,385
Net unrealized appreciation (depreciation) on:	
Investments	(11,595,559)
Foreign currency	262,618
Accumulated net realized gain (loss)	(137,442,746)
Paid-in capital	237,972,080
Net assets, at value	**$ 90,139,778**
Class A	
Net Asset Value, offering and redemption price per share ($89,892,204 ÷ 15,209,343 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 5.91**
Class B	
Net Asset Value, offering and redemption price per share ($247,574 ÷ 41,764 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 5.93**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $155,795)	$ 2,205,301
Income distributions — Deutsche Central Cash Management Government Fund	1,678
Securities lending income, including income from Daily Assets Fund, net of borrower rebates	12,699
Total income	2,219,678
Expenses:	
Management fee	372,650
Administration fee	47,171
Services to shareholders	1,612
Distribution service fee (Class B)	320
Custodian fee	66,726
Professional fees	34,584
Reports to shareholders	22,586
Trustees' fees and expenses	3,308
Other	11,570
Total expenses before expense reductions	560,527
Expense reductions	(121,205)
Total expenses after expense reductions	439,322
Net investment income (loss)	**1,780,356**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(9,647,597)
Foreign currency	(1,207,957)
	(10,855,554)
Change in net unrealized appreciation (depreciation) on:	
Investments	1,071,996
Foreign currency	(203,068)
	868,928
Net gain (loss)	**(9,986,626)**
Net increase (decrease) in net assets resulting from operations	**$ (8,206,270)**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income (loss)	$ 1,780,356	$ 3,454,193
Net realized gain (loss)	(10,855,554)	(15,028,592)
Change in net unrealized appreciation (depreciation)	868,928	4,889,649
Net increase (decrease) in net assets resulting from operations	(8,206,270)	(6,684,750)
Distributions to shareholders from:		
Net investment income:		
Class A	(9,803,744)	(5,221,184)
Class B	(26,284)	(11,210)
Total distributions	(9,830,028)	(5,232,394)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,247,708	11,121,280
Reinvestment of distributions	9,803,744	5,221,184
Payments for shares redeemed	(9,290,767)	(24,895,883)
Net increase (decrease) in net assets from Class A share transactions	2,760,685	(8,553,419)
Class B		
Proceeds from shares sold	9,671	46,566
Reinvestment of distributions	26,284	11,210
Payments for shares redeemed	(11,681)	(23,403)
Net increase (decrease) in net assets from Class B share transactions	24,274	34,373
Increase (decrease) in net assets	(15,251,339)	(20,436,190)
Net assets at beginning of period	105,391,117	125,827,307
Net assets at end of period (including undistributed net investment income of $943,385 and $8,993,057, respectively)	**$ 90,139,778**	**$ 105,391,117**

Other Information		
Class A		
Shares outstanding at beginning of period	14,702,326	15,973,456
Shares sold	350,472	1,384,894
Shares issued to shareholders in reinvestment of distributions	1,563,595	624,543
Shares redeemed	(1,407,050)	(3,280,567)
Net increase (decrease) in Class A shares	507,017	(1,271,130)
Shares outstanding at end of period	**15,209,343**	**14,702,326**
Class B		
Shares outstanding at beginning of period	37,903	33,566
Shares sold	1,521	5,973
Shares issued to shareholders in reinvestment of distributions	4,179	1,336
Shares redeemed	(1,839)	(2,972)
Net increase (decrease) in Class B shares	3,861	4,337
Shares outstanding at end of period	**41,764**	**37,903**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$ 7.15**	**$ 7.86**	**$ 9.06**	**$ 7.96**	**$ 6.74**	**$ 8.22**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.12	.21	.31[b]	.14	.22	.15
Net realized and unrealized gain (loss)	(.65)	(.59)	(1.36)	1.41	1.16	(1.49)
Total from investment operations	(.53)	(.38)	(1.05)	1.55	1.38	(1.34)
Less distributions from:						
Net investment income	(.71)	(.33)	(.15)	(.45)	(.16)	(.14)
Net asset value, end of period	**$ 5.91**	**$ 7.15**	**$ 7.86**	**$ 9.06**	**$ 7.96**	**$ 6.74**
Total Return (%)	(7.83)[c]**	(5.48)[c]	(11.76)[c]	20.23[c]	20.65	(16.67)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	90	105	126	151	230	211
Ratio of expenses before expense reductions (%)	1.19*	1.05	1.04	1.02	.98	1.00
Ratio of expenses after expense reductions (%)	.93*	.98	.98	1.01	.98	1.00
Ratio of net investment income (loss) (%)	1.88[d]	2.74	3.55[b]	1.64	2.99	1.98
Portfolio turnover rate (%)	32**	99	135	97	85	174

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.

d Not annualized. The ratio for the six months ended June 30, 2016 has not been annualized since the Fund believes it would not be appropriate because the Fund's dividend income is not earned ratably throughout the fiscal year.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$ 7.16**	**$ 7.87**	**$ 9.07**	**$ 7.96**	**$ 6.75**	**$ 8.22**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.11	.19	.28[b]	.13	.20	.13
Net realized and unrealized gain (loss)	(.65)	(.59)	(1.35)	1.41	1.15	(1.48)
Total from investment operations	(.54)	(.40)	(1.07)	1.54	1.35	(1.35)
Less distributions from:						
Net investment income	(.69)	(.31)	(.13)	(.43)	(.14)	(.12)
Net asset value, end of period	**$ 5.93**	**$ 7.16**	**$ 7.87**	**$ 9.07**	**$ 7.96**	**$ 6.75**
Total Return (%)	(8.05)[c]**	(5.71)[c]	(11.98)[c]	20.01[c]	20.13	(16.77)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.25	.27	.26	.31	.28	.24
Ratio of expenses before expense reductions (%)	1.47*	1.33	1.31	1.30	1.26	1.28
Ratio of expenses after expense reductions (%)	1.18*	1.23	1.23	1.27	1.26	1.28
Ratio of net investment income (loss) (%)	1.76[d]	2.47	3.26[b]	1.62	2.73	1.70
Portfolio turnover rate (%)	32**	99	135	97	85	174

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.

d Not annualized. The ratio for the six months ended June 30, 2016 has not been annualized since the Fund believes it would not be appropriate because the Fund's dividend income is not earned ratably throughout the fiscal year.

* Annualized

** Not annualized

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (the "Trust") 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 Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® 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 Trust 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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. 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. The 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, a portion of which may be recoverable. Based upon the current interpretation of the tax rules and regulations, estimated tax liabilities and recoveries 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, 2015, 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; and approximately $20,442,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($7,186,000) and long-term losses ($13,256,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, 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 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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from $88,924,000 to approximately $106,775,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from $1,599,000 to approximately $2,268,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2016 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	Forward Contracts
Foreign Exchange Contracts (a)	$ 355,283

The above derivative is located in the following Statement of Assets and Liabilities account:
(a) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivative	Forward Contracts
Foreign Exchange Contracts (a)	$ (92,225)

The above derivative is located in the following Statement of Assets and Liabilities account:
(a) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2016 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)	$ (1,274,629)

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)	$ (231,480)

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, 2016, 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
Morgan Stanley	$ 355,283	$ (92,225)	$ —	$ 263,058

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
Morgan Stanley	$ 92,225	$ (92,225)	$ —	$ —

C. Purchases and Sales of Securities

During the six months ended June 30, 2016, purchases and sales of investment securities (excluding short-term investments) aggregated $30,465,898 and $38,531,964, 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, 2016, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.79% of the Fund's average daily net assets.

For the period from January 1, 2016 through April 30, 2017, 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	.93%
Class B	1.18%

For the six months ended June 30, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 120,836
Class B	369
	$ 121,205

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, 2016, the Administration Fee was $47,171, of which $7,583 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2016
Class A	$ 328	$ 164
Class B	40	20
	$ 368	**$ 184**

Distribution Service Agreement. Deutsche AM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trusts' 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, 2016, the Distribution Service Fee aggregated $320, of which $52 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $6,038, all of which is unpaid.

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

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central

Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,189.

E. Ownership of the Fund

At June 30, 2016, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 21%, 15%, 12% and 11%, respectively. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 83% and 10%, 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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$ 921.70	$ 919.50
Expenses Paid per $1,000*	$ 4.44	$ 5.63

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,020.24	$1,019.00
Expenses Paid per $1,000*	$ 4.67	$ 5.92

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche CROCI® International VIP	.93%	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 Trusts' 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 Trusts' 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 4th quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche 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 (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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

Notes

Deutsche
Asset Management

VS1cint-3 (R-028378-5 8/16)

Deutsche
Asset Management

June 30, 2016

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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

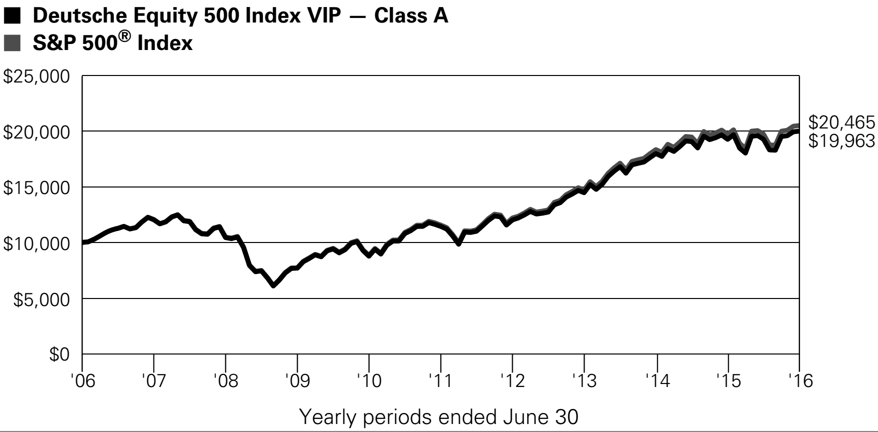
Performance Summary

June 30, 2016 (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, 2016 are 0.34%, 0.67% 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, 2016)

Deutsche Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,369	$10,374	$13,808	$17,461	$19,963
	Average annual total return	3.69%	3.74%	11.36%	11.79%	7.16%
S&P 500 Index	Growth of $10,000	$10,384	$10,399	$13,920	$17,702	$20,465
	Average annual total return	3.84%	3.99%	11.66%	12.10%	7.42%

Deutsche Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,353	$10,348	$13,699	$17,244	$19,466
	Average annual total return	3.53%	3.48%	11.06%	11.51%	6.89%
S&P 500 Index	Growth of $10,000	$10,384	$10,399	$13,920	$17,702	$20,465
	Average annual total return	3.84%	3.99%	11.66%	12.10%	7.42%

Deutsche Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B2	Growth of $10,000	$10,353	$10,337	$13,658	$17,142	$19,236
	Average annual total return	3.53%	3.37%	10.95%	11.38%	6.76%
S&P 500 Index	Growth of $10,000	$10,384	$10,399	$13,920	$17,702	$20,465
	Average annual total return	3.84%	3.99%	11.66%	12.10%	7.42%

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)	**6/30/16**	**12/31/15**
Common Stocks	98%	100%
Cash Equivalents	2%	0%
Government & Agency Obligations	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/16**	**12/31/15**
Information Technology	20%	21%
Financials	15%	16%
Health Care	15%	15%
Consumer Discretionary	12%	13%
Consumer Staples	11%	10%
Industrials	10%	10%
Energy	7%	7%
Utilities	4%	3%
Telecommunication Services	3%	2%
Materials	3%	3%
	100%	100%

Ten Largest Equity Holdings (18.4% of Net Assets)	
1. **Apple, Inc.** Designs, manufactures and markets personal computers and related computing and mobile communications devices	**2.8%**
2. **Alphabet, Inc.** Holding company with subsidiaries that provide Web-based search, maps, hardware products and various software applications	**2.2%**
3. **Microsoft Corp.** Develops, manufactures, licenses, sells and supports software products	**2.2%**
4. **Exxon Mobil Corp.** Explorer and producer of oil and gas	**2.1%**
5. **Johnson & Johnson** Provider of health care products	**1.8%**
6. **General Electric Co.** Diversified technology, media and financial services company	**1.5%**
7. **Amazon.com, Inc.** An online retailer; sells books, music and videotapes	**1.5%**
8. **Berkshire Hathaway, Inc.** Holding company of insurance business and a variety of other businesses	**1.5%**
9. **AT&T, Inc.** Provider of communications services	**1.4%**
10. **Facebook, Inc.** Operates a social networking Web site	**1.4%**

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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 98.0%		
Consumer Discretionary 12.0%		
Auto Components 0.3%		
BorgWarner, Inc.	6,273	185,179
Delphi Automotive PLC	7,687	481,206
Goodyear Tire & Rubber Co.	7,732	198,403
Johnson Controls, Inc.	18,344	811,906
		1,676,694
Automobiles 0.5%		
Ford Motor Co. (a)	111,207	1,397,872
General Motors Co.	39,743	1,124,727
Harley-Davidson, Inc. (a)	5,065	229,444
		2,752,043
Distributors 0.1%		
Genuine Parts Co. (a)	4,232	428,490
LKQ Corp.*	8,673	274,934
		703,424
Diversified Consumer Services 0.0%		
H&R Block, Inc.	6,228	**143,244**
Hotels, Restaurants & Leisure 1.7%		
Carnival Corp.	12,507	552,809
Chipotle Mexican Grill, Inc.* (a)	819	329,860
Darden Restaurants, Inc. (a)	3,276	207,502
Marriott International, Inc. "A" (a)	5,358	356,093
McDonald's Corp.	24,966	3,004,408
Royal Caribbean Cruises Ltd. (a)	4,770	320,306
Starbucks Corp.	41,674	2,380,419
Starwood Hotels & Resorts Worldwide, Inc.	4,755	351,632
Wyndham Worldwide Corp. (a)	3,238	230,643
Wynn Resorts Ltd. (a)	2,353	213,276
Yum! Brands, Inc.	11,579	960,131
		8,907,079
Household Durables 0.5%		
D.R. Horton, Inc.	9,564	301,075
Garmin Ltd. (a)	3,278	139,053
Harman International Industries, Inc.	2,066	148,380
Leggett & Platt, Inc.	3,844	196,467
Lennar Corp. "A"	5,115	235,801
Mohawk Industries, Inc.*	1,796	340,809
Newell Brands, Inc.	12,949	628,933
PulteGroup, Inc.	9,178	178,879
Whirlpool Corp. (a)	2,181	363,442
		2,532,839
Internet & Catalog Retail 2.2%		
Amazon.com, Inc.*	11,000	7,871,820
Expedia, Inc.	3,325	353,448
Netflix, Inc.*	12,123	1,109,012
The Priceline Group, Inc.*	1,413	1,764,003
TripAdvisor, Inc.*	3,298	212,061
		11,310,344
Leisure Products 0.1%		
Hasbro, Inc.	3,184	267,424
Mattel, Inc. (a)	9,728	304,389
		571,813
Media 2.7%		
CBS Corp. "B"	11,753	639,833
Comcast Corp. "A"	68,735	4,480,835
Discovery Communications, Inc. "A"* (a)	4,359	109,977
Discovery Communications, Inc. "C"*	6,708	159,986
Interpublic Group of Companies, Inc.	11,268	260,291
News Corp. "A"	10,954	124,328
News Corp. "B"	2,814	32,839
Omnicom Group, Inc. (a)	6,786	552,991
Scripps Networks Interactive, Inc. "A"	2,677	166,697
TEGNA, Inc.	6,361	147,384
Time Warner, Inc.	22,377	1,645,605
Twenty-First Century Fox, Inc. "A"	31,293	846,476
Twenty-First Century Fox, Inc. "B"	12,176	331,796
Viacom, Inc. "B"	9,768	405,079
Walt Disney Co. (a)	42,403	4,147,861
		14,051,978
Multiline Retail 0.6%		
Dollar General Corp.	8,083	759,802
Dollar Tree, Inc.*	6,645	626,225
Kohl's Corp.	5,095	193,203
Macy's, Inc.	8,731	293,449
Nordstrom, Inc. (a)	3,646	138,730
Target Corp.	16,811	1,173,744
		3,185,153
Specialty Retail 2.5%		
Advance Auto Parts, Inc.	2,119	342,494
AutoNation, Inc.*	2,119	99,551
AutoZone, Inc.* (a)	841	667,619
Bed Bath & Beyond, Inc. (a)	4,292	185,500
Best Buy Co., Inc.	8,129	248,747
CarMax, Inc.* (a)	5,591	274,127
Foot Locker, Inc. (a)	3,776	207,151
Home Depot, Inc.	35,363	4,515,502
L Brands, Inc.	7,211	484,074
Lowe's Companies, Inc.	25,188	1,994,134
O'Reilly Automotive, Inc.* (a)	2,751	745,796
Ross Stores, Inc.	11,465	649,951
Signet Jewelers Ltd.	2,272	187,236
Staples, Inc.	18,047	155,565
The Gap, Inc. (a)	6,181	131,161
Tiffany & Co. (a)	3,155	191,319
TJX Companies, Inc.	18,804	1,452,233
Tractor Supply Co.	3,834	349,584
Ulta Salon, Cosmetics & Fragrance, Inc.*	1,790	436,116
Urban Outfitters, Inc.*	2,644	72,710
		13,390,570
Textiles, Apparel & Luxury Goods 0.8%		
Coach, Inc. (a)	7,799	317,731
Hanesbrands, Inc.	10,589	266,101
Michael Kors Holdings Ltd.*	4,918	243,343
NIKE, Inc. "B"	37,908	2,092,522
PVH Corp.	2,321	218,708
Ralph Lauren Corp.	1,663	149,038
Under Armour, Inc. "A"* (a)	5,253	210,803
Under Armour, Inc. "C"*	5,290	192,566
VF Corp.	9,410	578,621
		4,269,433

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

	Shares	Value ($)
Consumer Staples 10.3%		
Beverages 2.3%		
Brown-Forman Corp. "B"	2,811	280,425
Coca-Cola Co.	110,784	5,021,839
Constellation Brands, Inc. "A"	4,985	824,519
Dr. Pepper Snapple Group, Inc.	5,314	513,492
Molson Coors Brewing Co. "B"	5,213	527,191
Monster Beverage Corp.* (a)	3,985	640,429
PepsiCo, Inc.	41,131	4,357,418
		12,165,313
Food & Staples Retailing 2.3%		
Costco Wholesale Corp.	12,462	1,957,033
CVS Health Corp.	30,562	2,926,006
Kroger Co.	27,142	998,554
Sysco Corp.	14,891	755,569
Wal-Mart Stores, Inc.	43,423	3,170,748
Walgreens Boots Alliance, Inc.	24,585	2,047,193
Whole Foods Market, Inc. (a)	9,071	290,453
		12,145,556
Food Products 1.8%		
Archer-Daniels-Midland Co.	16,622	712,918
Campbell Soup Co.	5,027	334,446
ConAgra Foods, Inc.	12,314	588,732
General Mills, Inc. (a)	16,836	1,200,744
Hormel Foods Corp.	7,797	285,370
Kellogg Co.	7,147	583,553
Kraft Heinz Co.	16,963	1,500,886
McCormick & Co., Inc.	3,342	356,491
Mead Johnson Nutrition Co.	5,270	478,252
Mondelez International, Inc. "A"	44,149	2,009,221
The Hershey Co.	4,042	458,727
The JM Smucker Co.	3,381	515,298
Tyson Foods, Inc. "A"	8,568	572,257
		9,596,895
Household Products 2.0%		
Church & Dwight Co., Inc.	3,623	372,771
Clorox Co.	3,670	507,891
Colgate-Palmolive Co.	25,466	1,864,111
Kimberly-Clark Corp.	10,221	1,405,183
Procter & Gamble Co.	75,703	6,409,773
		10,559,729
Personal Products 0.1%		
Estee Lauder Companies, Inc. "A"	6,286	**572,152**
Tobacco 1.8%		
Altria Group, Inc.	55,614	3,835,141
Philip Morris International, Inc.	44,109	4,486,768
Reynolds American, Inc.	23,653	1,275,606
		9,597,515
Energy 7.2%		
Energy Equipment & Services 1.1%		
Baker Hughes, Inc.	12,379	558,665
Diamond Offshore Drilling, Inc.	1,919	46,689
FMC Technologies, Inc.*	6,558	174,902
Halliburton Co.	24,472	1,108,337
Helmerich & Payne, Inc. (a)	3,071	206,156
National Oilwell Varco, Inc. (a)	10,777	362,646
Schlumberger Ltd.	39,478	3,121,920
Transocean Ltd. (a)	10,116	120,279
		5,699,594

	Shares	Value ($)
Oil, Gas & Consumable Fuels 6.1%		
Anadarko Petroleum Corp.	14,594	777,130
Apache Corp.	10,719	596,727
Cabot Oil & Gas Corp.	13,253	341,132
Chesapeake Energy Corp.*	16,756	71,716
Chevron Corp.	53,589	5,617,735
Cimarex Energy Co.	2,691	321,090
Columbia Pipeline Group, Inc.	11,566	294,817
Concho Resources, Inc.*	3,732	445,116
ConocoPhillips	35,251	1,536,944
Devon Energy Corp.	14,926	541,067
EOG Resources, Inc. (a)	15,585	1,300,101
EQT Corp.	4,922	381,110
Exxon Mobil Corp.	117,895	11,051,477
Hess Corp.	7,476	449,308
Kinder Morgan, Inc.	51,828	970,220
Marathon Oil Corp.	24,231	363,707
Marathon Petroleum Corp.	14,993	569,134
Murphy Oil Corp. (a)	4,469	141,891
Newfield Exploration Co.*	5,678	250,854
Noble Energy, Inc.	12,120	434,744
Occidental Petroleum Corp.	21,648	1,635,723
ONEOK, Inc.	6,062	287,642
Phillips 66	13,302	1,055,381
Pioneer Natural Resources Co. (a)	4,627	699,649
Range Resources Corp.	4,820	207,935
Southwestern Energy Co.*	13,144	165,352
Spectra Energy Corp.	19,484	713,699
Tesoro Corp.	3,458	259,073
Valero Energy Corp.	13,328	679,728
Williams Companies, Inc.	19,556	422,996
		32,583,198
Financials 15.4%		
Banks 5.1%		
Bank of America Corp.	292,346	3,879,431
BB&T Corp.	23,343	831,244
Citigroup, Inc.	83,457	3,537,742
Citizens Financial Group, Inc.	14,826	296,223
Comerica, Inc.	4,927	202,648
Fifth Third Bancorp.	22,105	388,827
Huntington Bancshares, Inc. (a)	23,020	205,799
JPMorgan Chase & Co.	103,925	6,457,900
KeyCorp	23,787	262,846
M&T Bank Corp.	4,513	533,572
People's United Financial, Inc. (a)	8,846	129,682
PNC Financial Services Group, Inc.	14,194	1,155,250
Regions Financial Corp.	36,006	306,411
SunTrust Banks, Inc.	14,318	588,183
U.S. Bancorp.	46,024	1,856,148
Wells Fargo & Co.	131,320	6,215,376
Zions Bancorp.	5,877	147,689
		26,994,971
Capital Markets 1.7%		
Affiliated Managers Group, Inc.*	1,538	216,504
Ameriprise Financial, Inc.	4,757	427,416
Bank of New York Mellon Corp.	30,480	1,184,148
BlackRock, Inc.	3,577	1,225,230
Charles Schwab Corp.	34,048	861,755
E*TRADE Financial Corp.*	8,040	188,860
Franklin Resources, Inc.	10,464	349,184
Invesco Ltd.	12,019	306,965
Legg Mason, Inc.	3,054	90,063

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

	Shares	Value ($)
Morgan Stanley	42,827	1,112,646
Northern Trust Corp.	6,217	411,938
State Street Corp.	11,158	601,639
T. Rowe Price Group, Inc. (a)	6,997	510,571
The Goldman Sachs Group, Inc.	11,000	1,634,380
		9,121,299
Consumer Finance 0.7%		
American Express Co.	23,008	1,397,966
Capital One Financial Corp. (a)	14,598	927,119
Discover Financial Services	11,737	628,986
Navient Corp.	9,526	113,836
Synchrony Financial*	23,623	597,189
		3,665,096
Diversified Financial Services 2.1%		
Berkshire Hathaway, Inc. "B"*	53,291	7,716,004
CME Group, Inc.	9,593	934,358
Intercontinental Exchange, Inc.	3,369	862,329
Leucadia National Corp.	9,340	161,862
Moody's Corp.	4,792	449,059
Nasdaq, Inc.	3,318	214,575
S&P Global, Inc.	7,519	806,488
		11,144,675
Insurance 2.6%		
Aflac, Inc.	11,769	849,251
Allstate Corp.	10,583	740,281
American International Group, Inc.	31,857	1,684,917
Aon PLC	7,552	824,905
Arthur J. Gallagher & Co.	5,013	238,619
Assurant, Inc.	1,798	155,185
Chubb Ltd.	13,211	1,726,810
Cincinnati Financial Corp.	4,230	316,785
Hartford Financial Services Group, Inc.	11,235	498,609
Lincoln National Corp.	6,733	261,038
Loews Corp.	7,518	308,915
Marsh & McLennan Companies, Inc.	14,798	1,013,071
MetLife, Inc.	31,306	1,246,918
Principal Financial Group, Inc.	7,582	311,696
Progressive Corp.	16,549	554,391
Prudential Financial, Inc.	12,634	901,310
The Travelers Companies, Inc.	8,281	985,770
Torchmark Corp.	3,108	192,137
Unum Group	6,755	214,741
Willis Towers Watson PLC	3,913	486,425
XL Group PLC	8,141	271,177
		13,782,951
Real Estate Investment Trusts 3.1%		
American Tower Corp. (REIT)	12,108	1,375,590
Apartment Investment & Management Co. "A" (REIT)	4,354	192,273
AvalonBay Communities, Inc. (REIT)	3,889	701,537
Boston Properties, Inc. (REIT)	4,359	574,952
Crown Castle International Corp. (REIT)	9,598	973,525
Digital Realty Trust, Inc. (REIT) (a)	4,158	453,180
Equinix, Inc. (REIT)	1,980	767,705
Equity Residential (REIT)	10,354	713,183
Essex Property Trust, Inc. (REIT)	1,849	421,738
Extra Space Storage, Inc. (REIT)	3,503	324,168
Federal Realty Investment Trust (REIT)	2,081	344,510

	Shares	Value ($)
General Growth Properties, Inc. (REIT)	16,479	491,404
HCP, Inc. (REIT)	13,156	465,459
Host Hotels & Resorts, Inc. (REIT) (a)	21,136	342,615
Iron Mountain, Inc. (REIT)	6,694	266,622
Kimco Realty Corp. (REIT)	12,091	379,416
Prologis, Inc. (REIT)	14,886	730,009
Public Storage (REIT)	4,176	1,067,344
Realty Income Corp. (REIT) (a)	7,367	510,975
Simon Property Group, Inc. (REIT)	8,819	1,912,841
SL Green Realty Corp. (REIT)	2,863	304,824
The Macerich Co. (REIT)	3,648	311,503
UDR, Inc. (REIT)	7,463	275,534
Ventas, Inc. (REIT)	9,671	704,242
Vornado Realty Trust (REIT)	5,024	503,003
Welltower, Inc. (REIT) (a)	10,201	777,010
Weyerhaeuser Co. (REIT)	21,161	629,963
		16,515,125
Real Estate Management & Development 0.1%		
CBRE Group, Inc. "A"*	8,413	**222,776**
Health Care 14.4%		
Biotechnology 2.9%		
AbbVie, Inc.	46,003	2,848,046
Alexion Pharmaceuticals, Inc.*	6,381	745,045
Amgen, Inc.	21,371	3,251,598
Biogen, Inc.*	6,236	1,507,989
Celgene Corp.*	22,036	2,173,411
Gilead Sciences, Inc.	37,880	3,159,950
Regeneron Pharmaceuticals, Inc.*	2,211	772,147
Vertex Pharmaceuticals, Inc.*	6,979	600,334
		15,058,520
Health Care Equipment & Supplies 2.4%		
Abbott Laboratories	41,724	1,640,170
Baxter International, Inc.	15,768	713,029
Becton, Dickinson & Co.	6,063	1,028,224
Boston Scientific Corp.*	38,646	903,157
C.R. Bard, Inc.	2,083	489,838
DENTSPLY SIRONA, Inc.	6,641	412,008
Edwards Lifesciences Corp.*	5,975	595,887
Hologic, Inc.*	6,786	234,795
Intuitive Surgical, Inc.*	1,085	717,630
Medtronic PLC (a)	40,008	3,471,494
St. Jude Medical, Inc.	8,033	626,574
Stryker Corp.	8,967	1,074,516
Varian Medical Systems, Inc.*	2,678	220,212
Zimmer Biomet Holdings, Inc.	5,664	681,832
		12,809,366
Health Care Providers & Services 2.7%		
Aetna, Inc.	9,993	1,220,445
AmerisourceBergen Corp. (a)	5,236	415,319
Anthem, Inc.	7,487	983,343
Cardinal Health, Inc.	9,200	717,692
Centene Corp.*	4,901	349,784
Cigna Corp.	7,329	938,039
DaVita HealthCare Partners, Inc.*	4,664	360,620
Express Scripts Holding Co.*	17,926	1,358,791
HCA Holdings, Inc.*	8,529	656,818
Henry Schein, Inc.*	2,307	407,878
Humana, Inc.	4,259	766,109
Laboratory Corp. of America Holdings*	2,943	383,385

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

	Shares	Value ($)
McKesson Corp.	6,403	1,195,120
Patterson Companies, Inc.	2,431	116,421
Quest Diagnostics, Inc.	3,977	323,767
UnitedHealth Group, Inc.	27,029	3,816,495
Universal Health Services, Inc. "B"	2,540	340,614
		14,350,640
Health Care Technology 0.1%		
Cerner Corp.*	8,573	**502,378**
Life Sciences Tools & Services 0.6%		
Agilent Technologies, Inc.	9,238	409,797
Illumina, Inc.* (a)	4,165	584,683
PerkinElmer, Inc.	3,098	162,397
Thermo Fisher Scientific, Inc.	11,172	1,650,775
Waters Corp.*	2,277	320,260
		3,127,912
Pharmaceuticals 5.7%		
Allergan PLC*	11,250	2,599,762
Bristol-Myers Squibb Co.	47,481	3,492,228
Eli Lilly & Co.	27,570	2,171,137
Endo International PLC*	5,837	90,999
Johnson & Johnson	78,236	9,490,027
Mallinckrodt PLC* (a)	3,065	186,291
Merck & Co., Inc.	78,777	4,538,343
Mylan NV*	12,156	525,625
Perrigo Co. PLC (a)	4,022	364,675
Pfizer, Inc.	172,487	6,073,267
Zoetis, Inc.	12,962	615,177
		30,147,531

Industrials 10.0%

	Shares	Value ($)
Aerospace & Defense 2.6%		
Boeing Co.	17,027	2,211,296
General Dynamics Corp.	8,178	1,138,705
Honeywell International, Inc.	21,658	2,519,258
L-3 Communications Holdings, Inc.	2,171	318,464
Lockheed Martin Corp.	7,449	1,848,618
Northrop Grumman Corp.	5,135	1,141,408
Raytheon Co.	8,479	1,152,720
Rockwell Collins, Inc.	3,684	313,656
Textron, Inc.	7,585	277,308
TransDigm Group, Inc.*	1,523	401,600
United Technologies Corp.	22,137	2,270,149
		13,593,182
Air Freight & Logistics 0.7%		
C.H. Robinson Worldwide, Inc.	4,011	297,817
Expeditors International of Washington, Inc. (a)	5,214	255,694
FedEx Corp.	7,105	1,078,397
United Parcel Service, Inc. "B"	19,654	2,117,129
		3,749,037
Airlines 0.5%		
Alaska Air Group, Inc. (a)	3,532	205,880
American Airlines Group, Inc. (a)	16,420	464,850
Delta Air Lines, Inc.	22,076	804,229
Southwest Airlines Co.	18,088	709,231
United Continental Holdings, Inc.*	9,502	389,962
		2,574,152
Building Products 0.1%		
Allegion PLC	2,663	184,892
Fortune Brands Home & Security, Inc.	4,360	252,749
Masco Corp.	9,321	288,392
		726,033
Commercial Services & Supplies 0.4%		
Cintas Corp. (a)	2,489	244,246
Pitney Bowes, Inc.	5,488	97,686
Republic Services, Inc.	6,707	344,136
Stericycle, Inc.*	2,458	255,927
Tyco International PLC	12,008	511,541
Waste Management, Inc.	11,744	778,275
		2,231,811
Construction & Engineering 0.1%		
Fluor Corp.	3,925	193,424
Jacobs Engineering Group, Inc.*	3,539	176,278
Quanta Services, Inc.*	4,221	97,589
		467,291
Electrical Equipment 0.5%		
Acuity Brands, Inc.	1,263	313,174
AMETEK, Inc.	6,604	305,303
Eaton Corp. PLC	13,007	776,908
Emerson Electric Co.	18,234	951,085
Rockwell Automation, Inc. (a)	3,709	425,867
		2,772,337
Industrial Conglomerates 2.6%		
3M Co.	17,267	3,023,797
Danaher Corp.	17,076	1,724,676
General Electric Co. (a)	261,412	8,229,250
Roper Technologies, Inc.	2,867	488,995
		13,466,718
Machinery 1.2%		
Caterpillar, Inc. (a)	16,651	1,262,312
Cummins, Inc. (a)	4,504	506,430
Deere & Co. (a)	8,482	687,381
Dover Corp.	4,429	307,018
Flowserve Corp. (a)	3,711	167,626
Illinois Tool Works, Inc.	9,178	955,981
Ingersoll-Rand PLC	7,278	463,463
PACCAR, Inc. (a)	9,953	516,262
Parker-Hannifin Corp.	3,831	413,940
Pentair PLC	5,180	301,942
Snap-on, Inc.	1,686	266,085
Stanley Black & Decker, Inc.	4,227	470,127
Xylem, Inc.	5,082	226,911
		6,545,478
Professional Services 0.3%		
Dun & Bradstreet Corp.	1,023	124,642
Equifax, Inc.	3,350	430,140
Nielsen Holdings PLC	10,255	532,953
Robert Half International, Inc.	3,730	142,337
Verisk Analytics, Inc.*	4,340	351,887
		1,581,959
Road & Rail 0.8%		
CSX Corp.	27,269	711,176
J.B. Hunt Transport Services, Inc.	2,539	205,481
Kansas City Southern	3,030	272,973
Norfolk Southern Corp.	8,445	718,923
Ryder System, Inc. (a)	1,566	95,745
Union Pacific Corp.	23,853	2,081,174
		4,085,472
Trading Companies & Distributors 0.2%		
Fastenal Co. (a)	8,125	360,669
United Rentals, Inc.*	2,489	167,012
W.W. Grainger, Inc. (a)	1,600	363,600
		891,281

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

	Shares	Value ($)
Information Technology 19.4%		
Communications Equipment 1.0%		
Cisco Systems, Inc.	143,033	4,103,617
F5 Networks, Inc.*	1,899	216,182
Harris Corp.	3,542	295,545
Juniper Networks, Inc.	9,914	222,966
Motorola Solutions, Inc.	4,451	293,632
		5,131,942
Electronic Equipment, Instruments & Components 0.4%		
Amphenol Corp. "A"	8,734	500,720
Corning, Inc.	30,681	628,347
FLIR Systems, Inc.	3,838	118,786
TE Connectivity Ltd.	10,224	583,893
		1,831,746
Internet Software & Services 4.0%		
Akamai Technologies, Inc.* (a)	5,031	281,384
Alphabet, Inc. "A"*	8,349	5,873,772
Alphabet, Inc. "C"*	8,397	5,811,564
eBay, Inc.*	30,076	704,079
Facebook, Inc. "A"*	65,729	7,511,510
VeriSign, Inc.* (a)	2,757	238,370
Yahoo!, Inc.*	24,941	936,784
		21,357,463
IT Services 3.6%		
Accenture PLC "A"	17,702	2,005,460
Alliance Data Systems Corp.*	1,662	325,619
Automatic Data Processing, Inc.	12,975	1,192,013
Cognizant Technology Solutions Corp. "A"*	17,257	987,791
CSRA, Inc.	4,064	95,219
Fidelity National Information Services, Inc.	7,825	576,546
Fiserv, Inc.*	6,335	688,804
Global Payments, Inc.	4,448	317,498
International Business Machines Corp.	25,113	3,811,651
MasterCard, Inc. "A"	27,618	2,432,041
Paychex, Inc.	9,088	540,736
PayPal Holdings, Inc.*	31,237	1,140,463
Teradata Corp.*	3,610	90,503
Total System Services, Inc.	4,839	256,999
Visa, Inc. "A" (a)	54,169	4,017,715
Western Union Co. (a)	14,001	268,539
Xerox Corp.	27,142	257,578
		19,005,175
Semiconductors & Semiconductor Equipment 2.8%		
Analog Devices, Inc.	8,794	498,092
Applied Materials, Inc.	30,942	741,680
Broadcom Ltd.	10,570	1,642,578
First Solar, Inc.*	2,209	107,092
Intel Corp.	134,210	4,402,088
KLA-Tencor Corp.	4,458	326,548
Lam Research Corp. (a)	4,469	375,664
Linear Technology Corp.	6,713	312,356
Microchip Technology, Inc. (a)	6,149	312,123
Micron Technology, Inc.*	29,850	410,736
NVIDIA Corp. (a)	14,475	680,470
Qorvo, Inc.*	3,643	201,312
QUALCOMM, Inc.	41,766	2,237,405
Skyworks Solutions, Inc. (a)	5,385	340,763
Texas Instruments, Inc.	28,528	1,787,279
Xilinx, Inc.	7,159	330,245
		14,706,431

	Shares	Value ($)
Software 4.1%		
Activision Blizzard, Inc.	14,356	568,928
Adobe Systems, Inc.*	14,224	1,362,517
Autodesk, Inc.*	6,338	343,139
CA, Inc.	8,566	281,222
Citrix Systems, Inc.*	4,444	355,920
Electronic Arts, Inc.*	8,581	650,097
Intuit, Inc.	7,279	812,409
Microsoft Corp.	223,490	11,435,983
Oracle Corp.	88,523	3,623,246
Red Hat, Inc.*	5,138	373,019
salesforce.com, Inc.*	18,113	1,438,353
Symantec Corp.	17,536	360,190
		21,605,023
Technology Hardware, Storage & Peripherals 3.5%		
Apple, Inc.	155,725	14,887,310
EMC Corp. (a)	55,477	1,507,310
Hewlett Packard Enterprise Co.	47,229	862,874
HP, Inc.	48,863	613,231
NetApp, Inc.	8,349	205,302
Seagate Technology PLC	8,484	206,670
Western Digital Corp.	8,043	380,112
		18,662,809
Materials 2.8%		
Chemicals 2.0%		
Air Products & Chemicals, Inc.	5,503	781,646
Albemarle Corp.	3,193	253,237
CF Industries Holdings, Inc.	6,520	157,132
Dow Chemical Co.	31,966	1,589,030
E.I. du Pont de Nemours & Co.	24,868	1,611,446
Eastman Chemical Co.	4,294	291,562
Ecolab, Inc. (a)	7,554	895,904
FMC Corp.	3,904	180,794
International Flavors & Fragrances, Inc. (a)	2,280	287,440
LyondellBasell Industries NV "A"	9,667	719,418
Monsanto Co.	12,382	1,280,423
PPG Industries, Inc.	7,568	788,207
Praxair, Inc.	8,079	907,999
The Mosaic Co.	9,804	256,669
The Sherwin-Williams Co.	2,225	653,416
		10,654,323
Construction Materials 0.2%		
Martin Marietta Materials, Inc.	1,802	345,984
Vulcan Materials Co.	3,756	452,072
		798,056
Containers & Packaging 0.3%		
Avery Dennison Corp.	2,496	186,576
Ball Corp. (a)	4,944	357,402
International Paper Co.	11,597	491,481
Owens-Illinois, Inc.*	4,653	83,801
Sealed Air Corp.	5,653	259,868
WestRock Co.	7,273	282,701
		1,661,829
Metals & Mining 0.3%		
Alcoa, Inc. (a)	37,933	351,639
Freeport-McMoRan, Inc. (a)	35,278	392,997
Newmont Mining Corp.	14,987	586,291
Nucor Corp.	8,982	443,801
		1,774,728

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

	Shares	Value ($)
Telecommunication Services 2.9%		
Diversified Telecommunication Services		
AT&T, Inc.	175,143	7,567,929
CenturyLink, Inc. (a)	15,374	446,000
Frontier Communications Corp. (a)	32,823	162,146
Level 3 Communications, Inc.*	8,166	420,467
Verizon Communications, Inc.	115,952	6,474,760
		15,071,302
Utilities 3.6%		
Electric Utilities 2.2%		
Alliant Energy Corp.	6,458	256,383
American Electric Power Co., Inc.	13,927	976,143
Duke Energy Corp.	19,621	1,683,286
Edison International	9,238	717,515
Entergy Corp.	5,040	410,004
Eversource Energy	8,989	538,441
Exelon Corp.	26,355	958,268
FirstEnergy Corp.	11,959	417,489
NextEra Energy, Inc.	13,133	1,712,543
PG&E Corp.	14,137	903,637
Pinnacle West Capital Corp.	3,238	262,472
PPL Corp.	19,373	731,331
Southern Co.	26,691	1,431,438
Xcel Energy, Inc.	14,400	644,832
		11,643,782
Gas Utilities 0.0%		
AGL Resources, Inc.	3,430	**226,277**
Independent Power & Renewable Eletricity Producers 0.1%		
AES Corp. (a)	18,485	230,693
NRG Energy, Inc.	9,273	139,002
		369,695
Multi-Utilities 1.2%		
Ameren Corp.	6,804	364,558
CenterPoint Energy, Inc.	12,335	296,040
CMS Energy Corp.	8,016	367,614
Consolidated Edison, Inc.	8,689	698,943
Dominion Resources, Inc. (a)	17,532	1,366,269
DTE Energy Co.	5,076	503,133
NiSource, Inc.	9,033	239,555
Public Service Enterprise Group, Inc.	14,377	670,112
SCANA Corp.	4,061	307,255
Sempra Energy	6,775	772,486
TECO Energy, Inc.	6,552	181,097
WEC Energy Group, Inc. (a)	8,927	582,934
		6,349,996
Water Utilities 0.1%		
American Water Works Co., Inc.	5,037	**425,677**
Total Common Stocks (Cost $310,155,006)		**517,818,811**

	Principal Amount ($)	Value ($)
Government & Agency Obligation 0.1%		
U.S. Treasury Obligation		
U.S. Treasury Bill, 0.3%**, 9/15/2016 (b) (Cost $584,630)	585,000	**584,749**

	Shares	Value ($)
Securities Lending Collateral 7.8%		
Daily Assets Fund "Capital Shares", 0.51% (c) (d) (Cost $41,459,685)	41,459,685	**41,459,685**
Cash Equivalents 2.0%		
Deutsche Central Cash Management Government Fund, 0.44% (c) (Cost $10,430,304)	10,430,304	**10,430,304**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $362,629,625)†	107.9	**570,293,549**
Other Assets and Liabilities, Net	(7.9)	**(41,707,432)**
Net Assets	100.0	**528,586,117**

* Non-income producing security.

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

† The cost for federal income tax purposes was $374,411,412. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $195,882,137. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $219,955,002 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $24,072,865.

(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, 2016 amounted to $41,015,198, which is 7.8% of net assets.

(b) At June 30, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

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

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

REIT: Real Estate Investment Trust

At June 30, 2016, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
S&P 500 E-Mini Index	USD	9/16/2016	110	11,496,100	**22,292**

Currency Abbreviation

USD United States Dollar

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

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2016 in valuing the Fund's investments.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (e)	$517,818,811	$ —	$ —	$517,818,811
Government & Agency Obligations	—	584,749	—	584,749
Short-Term Investments (e)	51,889,989	—	—	51,889,989
Derivatives (f)				
Futures Contracts	22,292	—	—	22,292
Total	**$569,731,092**	**$ 584,749**	**$ —**	**$570,315,841**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(e) See Investment Portfolio for additional detailed categorizations.

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

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

Statement of Assets and Liabilities

as of June 30, 2016 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $310,739,636) — including $41,015,198 of securities loaned	$	518,403,560
Investment in Daily Assets Fund (cost $41,459,685)*		41,459,685
Investment in Deutsche Central Cash Management Government Fund (cost $10,430,304)		10,430,304
Total investments in securities, at value (cost $362,629,625)		570,293,549
Cash		12,918
Receivable for Fund shares sold		21,589
Dividends receivable		581,778
Interest receivable		8,278
Receivable for variation margin on futures contracts		130,366
Foreign taxes recoverable		2,157
Other assets		3,922
Total assets	$	571,054,557
Liabilities		
Payable upon return of securities loaned		41,459,685
Payable for investments purchased		603,748
Payable for Fund shares redeemed		155,347
Accrued management fee		79,542
Accrued Trustees' fees		1,292
Other accrued expenses and payables		168,826
Total liabilities		42,468,440
Net assets, at value	**$**	**528,586,117**
Net Assets Consist of		
Undistributed net investment income		4,985,338
Net unrealized appreciation (depreciation) on:		
Investments		207,663,924
Futures		22,292
Accumulated net realized gain (loss)		14,779,736
Paid-in capital		301,134,827
Net assets, at value	**$**	**528,586,117**
Class A		
Net Asset Value, offering and redemption price per share ($498,414,809 ÷ 27,400,300 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**18.19**
Class B		
Net Asset Value, offering and redemption price per share ($14,033,471 ÷ 770,564 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**18.21**
Class B2		
Net Asset Value, offering and redemption price per share ($16,137,837 ÷ 885,824 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**18.22**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $1,323)	$	5,923,693
Interest		531
Income distributions — Deutsche Central Cash Management Government Fund		11,070
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		28,570
Total income		5,963,864
Expenses:		
Management fee		520,844
Administration fee		260,422
Services to shareholders		2,486
Record keeping fee (Class B and Class B2)		18,075
Distribution service fees (Class B and Class B2)		36,333
Custodian fee		20,272
Professional fees		37,856
Reports to shareholders		26,838
Trustees' fees and expenses		13,503
Other		20,816
Total expenses before expense reductions		957,445
Expense reductions		(47,945)
Total expenses after expense reductions		909,500
Net investment income (loss)		**5,054,364**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		25,543,001
Futures		1,153,862
		26,696,863
Change in net unrealized appreciation (depreciation) on:		
Investments		(13,737,651)
Futures		28,702
		(13,708,949)
Net gain (loss)		**12,987,914**
Net increase (decrease) in net assets resulting from operations	**$**	**18,042,278**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income (loss)	$ 5,054,364	$ 10,807,749
Net realized gain (loss)	26,696,863	40,935,822
Change in net unrealized appreciation (depreciation)	(13,708,949)	(44,867,654)
Net increase (decrease) in net assets resulting from operations	18,042,278	6,875,917
Distributions to shareholders from:		
Net investment income:		
Class A	(10,160,013)	(9,872,144)
Class B	(239,707)	(139,339)
Class B2	(284,387)	(233,490)
Net realized gains:		
Class A	(37,893,356)	(27,498,227)
Class B	(1,020,192)	(461,402)
Class B2	(1,283,529)	(836,657)
Total distributions	(50,881,184)	(39,041,259)
Fund share transactions:		
Class A		
Proceeds from shares sold	7,235,126	24,313,549
Reinvestment of distributions	48,053,369	37,370,371
Cost of shares redeemed	(56,142,534)	(111,171,237)
Net increase (decrease) in net assets from Class A share transactions	(854,039)	(49,487,317)
Class B		
Proceeds from shares sold	1,754,429	6,669,770
Reinvestment of distributions	1,259,899	600,741
Cost of shares redeemed	(538,896)	(1,280,491)
Net increase (decrease) in net assets from Class B share transactions	2,475,432	5,990,020
Class B2		
Proceeds from shares sold	175,722	675,159
Reinvestment of distributions	1,567,916	1,070,147
Cost of shares redeemed	(1,600,899)	(2,843,635)
Net increase (decrease) in net assets from Class B2 share transactions	142,739	(1,098,329)
Increase (decrease) in net assets	(31,074,774)	(76,760,968)
Net assets at beginning of period	559,660,891	636,421,859
Net assets at end of period (including undistributed net investment income of $4,985,338 and $10,615,081, respectively)	**$ 528,586,117**	**$ 559,660,891**

Other Information	Six Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2015
Class A		
Shares outstanding at beginning of period	27,337,468	29,911,141
Shares sold	389,253	1,225,463
Shares issued to shareholders in reinvestment of distributions	2,660,762	1,892,171
Shares redeemed	(2,987,183)	(5,691,307)
Net increase (decrease) in Class A shares	62,832	(2,573,673)
Shares outstanding at end of period	**27,400,300**	**27,337,468**
Class B		
Shares outstanding at beginning of period	634,704	337,768
Shares sold	95,307	331,792
Shares issued to shareholders in reinvestment of distributions	69,646	30,371
Shares redeemed	(29,093)	(65,227)
Net increase (decrease) in Class B shares	135,860	296,936
Shares outstanding at end of period	**770,564**	**634,704**
Class B2		
Shares outstanding at beginning of period	877,722	933,560
Shares sold	9,574	33,269
Shares issued to shareholders in reinvestment of distributions	86,625	54,075
Shares redeemed	(88,097)	(143,182)
Net increase (decrease) in Class B2 shares	8,102	(55,838)
Shares outstanding at end of period	**885,824**	**877,722**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$19.40**	**$20.41**	**$19.01**	**$15.01**	**$13.20**	**$13.17**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.18	.35	.33	.30	.28	.23
Net realized and unrealized gain (loss)	.52	(.10)	2.10	4.37	1.78	.03
Total from investment operations	.70	.25	2.43	4.67	2.06	.26
Less distributions from:						
Net investment income	(.40)	(.33)	(.37)	(.31)	(.25)	(.23)
Net realized gains	(1.51)	(.93)	(.66)	(.36)	—	—
Total distributions	(1.91)	(1.26)	(1.03)	(.67)	(.25)	(.23)
Net asset value, end of period	**$18.19**	**$19.40**	**$20.41**	**$19.01**	**$15.01**	**$13.20**
Total Return (%)	3.69[b]**	1.13[b]	13.39[b]	31.93[b]	15.70	1.83
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	498	530	610	600	668	632
Ratio of expenses before expense reductions (%)	.35*	.34	.34	.34	.35	.33
Ratio of expenses after expense reductions (%)	.33*	.33	.33	.34	.35	.33
Ratio of net investment income (loss) (%)	1.96*	1.77	1.70	1.76	1.95	1.74
Portfolio turnover rate (%)	2**	3	3	4[c]	4	6

a Based on average shares outstanding during the period.

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

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

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$19.40**	**$20.40**	**$19.01**	**$15.00**	**$13.19**	**$13.17**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.16	.30	.28	.34	.25	.20
Net realized and unrealized gain (loss)	.51	(.09)	2.09	4.29	1.78	.01
Total from investment operations	.67	.21	2.37	4.63	2.03	.21
Less distributions from:						
Net investment income	(.35)	(.28)	(.32)	(.26)	(.22)	(.19)
Net realized gains	(1.51)	(.93)	(.66)	(.36)	—	—
Total distributions	(1.86)	(1.21)	(.98)	(.62)	(.22)	(.19)
Net asset value, end of period	**$18.21**	**$19.40**	**$20.40**	**$19.01**	**$15.00**	**$13.19**
Total Return (%)	3.53[b]**	.92[b]	13.05[b]	31.68[b]	15.42	1.50
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	14	12	7	5	47	45
Ratio of expenses before expense reductions (%)	.69*	.67	.62	.59	.60	.58
Ratio of expenses after expense reductions (%)	.60*	.58	.58	.58	.60	.58
Ratio of net investment income (loss) (%)	1.69*	1.53	1.45	2.11	1.70	1.49
Portfolio turnover rate (%)	2**	3	3	4[c]	4	6

a Based on average shares outstanding during the period.

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

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

* Annualized

** Not annualized

Class B2	Six Months Ended 6/30/16 (Unaudited)	Years Ended December 31, 2015	2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$19.39**	**$20.40**	**$18.99**	**$14.99**	**$13.18**	**$13.15**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.15	.28	.27	.23	.22	.18
Net realized and unrealized gain (loss)	.52	(.10)	2.09	4.37	1.78	.02
Total from investment operations	.67	.18	2.36	4.60	2.00	.20
Less distributions from:						
Net investment income	(.33)	(.26)	(.29)	(.24)	(.19)	(.17)
Net realized gains	(1.51)	(.93)	(.66)	(.36)	—	—
Total distributions	(1.84)	(1.19)	(.95)	(.60)	(.19)	(.17)
Net asset value, end of period	**$18.22**	**$19.39**	**$20.40**	**$18.99**	**$14.99**	**$13.18**
Total Return (%)	3.53[b]**	.76[b]	13.00[b]	31.44[b]	15.26[b]	1.43
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	16	17	19	20	19	18
Ratio of expenses before expense reductions (%)	.75*	.74	.74	.74	.75	.73
Ratio of expenses after expense reductions (%)	.70*	.68	.68	.72	.74	.73
Ratio of net investment income (loss) (%)	1.59*	1.42	1.35	1.39	1.55	1.34
Portfolio turnover rate (%)	2**	3	3	4[c]	4	6

a Based on average shares outstanding during the period.

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

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

* Annualized

** Not annualized

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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. 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, 2015 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 investments in futures contracts and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

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

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet been made. However, based on experience, the Fund expects the risk of loss to be remote.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust based upon the relative net assets or other appropriate measures.

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 statement purposes and a recharacterization will be made within 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.

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

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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $3,155,000 to $11,496,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2016 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	**Futures Contracts**
Equity Contracts (a)	$ 22,292

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2016 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Futures Contracts**
Equity Contracts (a)	$ 1,153,862

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)	$ 28,702

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, 2016, purchases and sales of investment securities (excluding short-term investments) aggregated $11,911,182 and $61,142,704, 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, 2016, 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, 2016 through April 30, 2016, 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	.33%
Class B	.58%
Class B2	.68%

Effective May 1, 2016 through April 30, 2017, 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	.62%
Class B2	.72%

For the six months ended June 30, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 37,743
Class B	6,111
Class B2	4,091
	$ 47,945

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, 2016, the Administration Fee was $260,422, of which $43,180 is unpaid.

Distribution Service Agreement. Deutsche AM 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, 2016, the Distribution Service Fees were as follows:

Distribution Service Fees	Total Aggregated	Unpaid at June 30, 2016
Class B	$ 15,996	$ 2,856
Class B2	20,337	3,387
	$ 36,333	**$ 6,243**

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2016
Class A	$ 233	$ 116
Class B	40	19
Class B2	29	15
	$ 302	**$ 150**

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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $8,953, all of which is unpaid.

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

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $2,517.

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, 2016.

F. Ownership of the Fund

At June 30, 2016, 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 51% and 17%, respectively. At June 30, 2016, two participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 68% and 19%. At June 30, 2016, one participating insurance company was a beneficial owner of record of 95% 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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,036.90	$1,035.30	$1,035.30
Expenses Paid per $1,000*	$ 1.67	$ 3.04	$ 3.54
Hypothetical 5% Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,023.22	$1,021.88	$1,021.38
Expenses Paid per $1,000*	$ 1.66	$ 3.02	$ 3.52

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

Annualized Expense Ratios	**Class A**	**Class B**	**Class B2**
Deutsche Equity 500 Index VIP	.33%	.60%	.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 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 2015.

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

- In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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-advisers, 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 index(es) and a peer universe compiled 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 1st quartile, 2nd 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available. The Board did not consider the profitability of NTI with respect to the Fund. The Board noted that DIMA pays NTI's fee out of its management fee, and its understanding that the Fund's sub-advisory fee schedule was the product of an arm's length negotiation with DIMA.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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.

Notes

Notes

Deutsche
Asset Management

vit-equ500-3 (R-028371-5 8/16)

Deutsche
Asset Management

June 30, 2016

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 and less liquid 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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

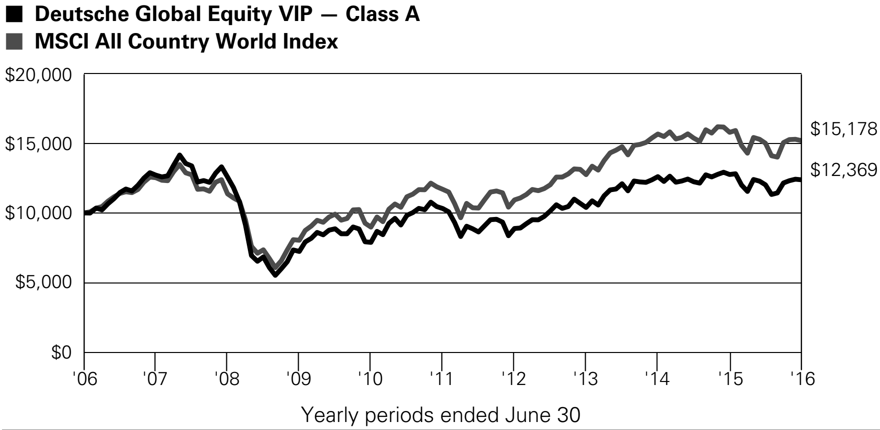
Performance Summary

June 30, 2016 (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, 2016 is 1.00% 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 23 developed and 23 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	$10,298	$9,705	$11,917	$12,005	$12,369
	Average annual total return	2.98%	–2.95%	6.02%	3.72%	2.15%
MSCI All Country World Index	Growth of $10,000	$10,123	$9,627	$11,921	$12,994	$15,178
	Average annual total return	1.23%	–3.73%	6.03%	5.38%	4.26%

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)	**6/30/16**	**12/31/15**
Common Stocks	96%	100%
Cash Equivalents	4%	0%
Limited Partnership	0%	—
	100%	100%

Sector Diversification (As a % of Common Stocks and Limited Partnership)	**6/30/16**	**12/31/15**
Health Care	24%	25%
Information Technology	16%	15%
Consumer Staples	13%	16%
Financials	12%	13%
Consumer Discretionary	11%	9%
Industrials	10%	10%
Materials	7%	6%
Energy	6%	5%
Telecommunication Services	1%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/16**	**12/31/15**
United States	56%	50%
Canada	8%	6%
Germany	7%	6%
Switzerland	6%	7%
United Kingdom	6%	5%
Sweden	4%	6%
Ireland	3%	3%
Luxembourg	3%	2%
Norway	1%	3%
France	0%	3%
Netherlands	—	2%
Other	6%	7%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

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

Brendan O'Neill, CFA
Mark Schumann, CFA
Sebastian P. Werner, PhD
Portfolio Managers

	Shares	Value ($)
Common Stocks 96.1%		
Canada 7.5%		
Agnico Eagle Mines Ltd.	24,000	1,284,000
Alimentation Couche-Tard, Inc. "B"	18,000	772,971
Brookfield Asset Management, Inc. "A"	40,000	1,323,271
(Cost $2,201,202)		**3,380,242**
China 0.3%		
Tencent Holdings Ltd. (Cost $143,499)	6,500	**149,256**
Finland 0.9%		
Sampo Oyj "A" (Cost $484,063)	10,000	**407,074**
France 0.5%		
JC Decaux SA (Cost $269,306)	6,700	**226,455**
Germany 7.0%		
Allianz SE (Registered)	4,500	643,512
BASF SE	6,200	473,441
Bayer AG (Registered)	4,800	481,716
Fresenius Medical Care AG & Co. KGaA	15,500	1,345,609
LANXESS AG	5,000	218,960
(Cost $3,080,082)		**3,163,238**
Ireland 2.9%		
Glanbia PLC (a)	20,500	385,155
Glanbia PLC (a)	9,000	169,556
Kerry Group PLC "A" (a)	600	53,106
Kerry Group PLC "A" (a)	7,921	701,996
(Cost $1,064,732)		**1,309,813**
Israel 0.6%		
Mobileye NV* (b) (Cost $246,148)	6,000	**276,840**
Japan 0.6%		
Asics Corp. (Cost $271,132)	15,000	**251,467**
Luxembourg 2.4%		
Eurofins Scientific (Cost $683,067)	2,900	**1,075,836**
Malaysia 0.8%		
IHH Healthcare Bhd. (Cost $277,346)	213,000	**348,839**
Mexico 1.0%		
Fomento Economico Mexicano SAB de CV (ADR) (Cost $434,833)	4,800	**443,952**
Norway 1.0%		
Marine Harvest ASA* (Cost $316,304)	27,500	**459,318**
Philippines 1.0%		
Universal Robina Corp. (Cost $459,003)	100,000	**444,173**
Sweden 4.2%		
Assa Abloy AB "B"	41,000	838,364
Meda AB "A"	31,000	561,075
Svenska Cellulosa AB "B"	15,400	491,812
(Cost $1,598,312)		**1,891,251**

	Shares	Value ($)
Switzerland 5.7%		
Galenica AG (Registered)	470	632,263
Lonza Group AG (Registered)*	3,700	612,400
Nestle SA (Registered)	12,015	927,628
U-Blox AG*	1,800	387,143
(Cost $1,685,936)		**2,559,434**
United Kingdom 6.0%		
Aon PLC (b)	8,000	873,840
Compass Group PLC	40,000	761,972
Halma PLC	43,000	584,280
Spirax-Sarco Engineering PLC	9,000	449,881
(Cost $2,274,324)		**2,669,973**
United States 53.7%		
AbbVie, Inc.	8,000	495,280
Acadia Healthcare Co., Inc.* (c)	10,900	603,860
Activision Blizzard, Inc.	14,000	554,820
Allergan PLC*	2,300	531,507
Alliance Data Systems Corp.*	2,700	528,984
Alphabet, Inc. "A"*	620	436,189
Amphenol Corp. "A"	24,000	1,375,920
Applied Materials, Inc.	28,000	671,160
Biogen, Inc.*	850	205,547
Bristol-Myers Squibb Co.	8,000	588,400
CBRE Group, Inc. "A"*	17,000	450,160
Celgene Corp.*	6,000	591,780
Cepheid, Inc.*	7,700	236,775
Cerner Corp.*	7,700	451,220
CVS Health Corp.	4,500	430,830
Danaher Corp.	9,500	959,500
Dollar General Corp.	8,600	808,400
Ecolab, Inc.	5,500	652,300
EOG Resources, Inc.	7,500	625,650
EPAM Systems, Inc.*	4,500	289,395
Evolent Health, Inc. "A"* (c)	13,680	262,656
Exxon Mobil Corp.	6,200	581,188
Facebook, Inc. "A"*	4,000	457,120
General Electric Co. (c)	16,500	519,420
Harman International Industries, Inc.	4,400	316,008
HealthStream, Inc.*	7,000	185,640
JPMorgan Chase & Co.	15,000	932,100
L Brands, Inc.	4,000	268,520
LKQ Corp.*	14,000	443,800
Marcus & Millichap, Inc.*	18,000	457,380
MasterCard, Inc. "A"	12,000	1,056,720
Mead Johnson Nutrition Co.	4,200	381,150
Medivation, Inc.*	4,500	271,350
NIKE, Inc. "B"	8,000	441,600
Noble Energy, Inc.	14,700	527,289
Press Ganey Holdings, Inc.*	14,000	550,900
Rollins, Inc.	16,000	468,320
Schlumberger Ltd.	9,600	759,168
Scotts Miracle-Gro Co. "A"	6,500	454,415
T-Mobile U.S., Inc.*	13,000	562,510
Time Warner, Inc.	8,500	625,090
TJX Companies, Inc.	7,700	594,671
Union Pacific Corp.	4,600	401,350
United Technologies Corp.	5,000	512,750
Zoetis, Inc.	12,500	593,250
(Cost $22,449,563)		**24,112,042**
Total Common Stocks (Cost $37,938,852)		**43,169,203**

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

	Shares	Value ($)
Limited Partnership 0.0%		
Bermuda		
Brookfield Business Partners LP (Units)* (Cost $21,584)	800	**15,177**
Securities Lending Collateral 3.1%		
Daily Assets Fund "Capital Shares", 0.51% (d) (e) (Cost $1,386,863)	1,386,863	**1,386,863**

	Shares	Value ($)
Cash Equivalents 3.8%		
Deutsche Central Cash Management Government Fund, 0.44% (d) (Cost $1,717,630)	1,717,630	**1,717,630**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $41,064,929)†	103.0	**46,288,873**
Other Assets and Liabilities, Net	(3.0)	**(1,364,029)**
Net Assets	100.0	**44,924,844**

* Non-income producing security.

† The cost for federal income tax purposes was $41,251,872. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $5,037,001. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $6,870,431 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,833,430.

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

(b) Listed on the New York Stock Exchange.

(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, 2016 amounted to $1,380,698, which is 3.1% of net assets.

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

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

ADR: American Depositary Receipt

Fair Value Measurements

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

The following is a summary of the inputs used as of June 30, 2016 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				
Canada	$ 3,380,242	$ —	$ —	$ 3,380,242
China	—	149,256	—	149,256
Finland	—	407,074	—	407,074
France	—	226,455	—	226,455
Germany	—	3,163,238	—	3,163,238
Ireland	—	1,309,813	—	1,309,813
Israel	276,840	—	—	276,840
Japan	—	251,467	—	251,467
Luxembourg	—	1,075,836	—	1,075,836
Malaysia	—	348,839	—	348,839
Mexico	443,952	—	—	443,952
Norway	—	459,318	—	459,318
Philippines	—	444,173	—	444,173
Sweden	—	1,891,251	—	1,891,251
Switzerland	—	2,559,434	—	2,559,434
United Kingdom	873,840	1,796,133	—	2,669,973
United States	24,112,042	—	—	24,112,042
Limited Partnership				
Bermuda	15,177	—	—	15,177
Short-Term Investments (f)	3,104,493	—	—	3,104,493
Total	**$ 32,206,586**	**$ 14,082,287**	**$ —**	**$ 46,288,873**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(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, 2016 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $37,960,436) — including $1,380,698 of securities loaned	$	43,184,380
Investment in Daily Assets Fund (cost $1,386,863)*		1,386,863
Investment in Deutsche Central Cash Management Government Fund (cost $1,717,630)		1,717,630
Total investments in securities, at value (cost $41,064,929)		46,288,873
Foreign currency, at value (cost $181,526)		180,096
Receivable for Fund shares sold		73
Dividends receivable		28,583
Interest receivable		842
Other assets		323
Total assets		46,498,790
Liabilities		
Payable upon return of securities loaned		1,386,863
Payable for Fund shares redeemed		88,363
Accrued management fee		20,252
Accrued Trustees' fees		258
Other accrued expenses and payables		78,210
Total liabilities		1,573,946
Net assets, at value	**$**	**44,924,844**
Net Assets Consist of		
Undistributed net investment income		200,549
Net unrealized appreciation (depreciation) on:		
Investments		5,223,944
Foreign currency		(3,674)
Accumulated net realized gain (loss)		(43,540,714)
Paid-in capital		83,044,739
Net assets, at value	**$**	**44,924,844**
Class A		
Net Asset Value, offering and redemption price per share ($44,924,844 ÷ 4,885,543 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**9.20**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $33,778)	$	426,226
Income distributions — Deutsche Central Cash Management Government Fund		2,115
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		3,702
Total income		432,043
Expenses:		
Management fee		144,475
Administration fee		22,227
Services to shareholders		431
Custodian fee		19,026
Professional fees		37,142
Reports to shareholders		10,290
Trustees' fees and expenses		2,184
Other		10,206
Total expenses before expense reductions		245,981
Expense reductions		(39,178)
Total expenses after expense reductions		206,803
Net investment income		**225,240**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(333,694)
Foreign currency		14,075
		(319,619)
Change in net unrealized appreciation (depreciation) on:		
Investments		1,177,474
Foreign currency		(1,024)
		1,176,450
Net gain (loss)		**856,831**
Net increase (decrease) in net assets resulting from operations	**$**	**1,082,071**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income	$ 225,240	$ 363,204
Net realized gain (loss)	(319,619)	904,730
Change in net unrealized appreciation (depreciation)	1,176,450	(2,104,278)
Net increase (decrease) in net assets resulting from operations	1,082,071	(836,344)
Distributions to shareholders from:		
Net investment income:		
Class A	(336,718)	(365,100)
Fund share transactions:		
Class A		
Proceeds from shares sold	587,955	1,395,898
Reinvestment of distributions	336,718	365,100
Payments for shares redeemed	(5,753,567)	(19,468,680)
Net increase (decrease) in net assets from Class A share transactions	(4,828,894)	(17,707,682)
Increase (decrease) in net assets	(4,083,541)	(18,909,126)
Net assets at beginning of period	49,008,385	67,917,511
Net assets at end of period (including undistributed net investment income of $200,549 and $312,027, respectively)	**$ 44,924,844**	**$ 49,008,385**

Other Information		
Class A		
Shares outstanding at beginning of period	5,446,357	7,372,593
Shares sold	64,702	147,455
Shares issued to shareholders in reinvestment of distributions	36,640	37,523
Shares redeemed	(662,156)	(2,111,214)
Net increase (decrease) in Class A shares	(560,814)	(1,926,236)
Shares outstanding at end of period	**4,885,543**	**5,446,357**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$ 9.00**	**$ 9.21**	**$ 9.27**	**$ 7.96**	**$ 6.98**	**$ 8.08**
Income (loss) from investment operations:						
Net investment income[a]	.04	.05	.06	.14	.18	.19
Net realized and unrealized gain (loss)	.23	(.21)	.04	1.37	1.01	(1.14)
Total from investment operations	.27	(.16)	.10	1.51	1.19	(.95)
Less distributions from:						
Net investment income	(.07)	(.05)	(.16)	(.20)	(.21)	(.15)
Net asset value, end of period	**$ 9.20**	**$ 9.00**	**$ 9.21**	**$ 9.27**	**$ 7.96**	**$ 6.98**
Total Return (%)	2.98[b]**	(1.75)[b]	1.14	19.31[b]	17.34	(12.07)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	45	49	68	73	67	65
Ratio of expenses before expense reductions (%)	1.11*	1.00	.95	1.06	1.02	1.03
Ratio of expenses after expense reductions (%)	.93*	.91	.95	.99	1.02	1.03
Ratio of net investment income (%)	1.01*	.58	.59	1.69	2.46	2.44
Portfolio turnover rate (%)	22**	79	78	139	18	26

a Based on average shares outstanding during the period.

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

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Global Equity VIP (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.

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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stocks in the Investment Portfolio. 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. The 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, a portion of which may be recoverable. Based upon the current interpretation of the tax rules and regulations, estimated tax liabilities and recoveries 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, 2015, the Fund had a net tax basis capital loss carryforward of approximately $42,785,000 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 ($3,621,000) and December 31, 2017 ($39,164,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2015 through December 31, 2015, the Fund elected to defer qualified late year losses of approximately $249,000 of net short-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2016.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, 2016, purchases and sales of investment transactions (excluding short-term investments) aggregated $9,821,524 and $15,427,173, 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, 2016, 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, 2016 through April 30, 2016, 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 shares at 0.91%.

Effective May 1, 2016 through April 30, 2017, 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 0.97%.

For the six months ended June 30, 2016, fees waived and/or expenses reimbursed were $39,178.

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, 2016, the Administration Fee was $22,227, of which $3,710 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $53, of which $29 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $4,998, of which $3,840 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred lending agent fees to Deutsche Bank AG in the amount of $323.

D. Ownership of the Fund

At June 30, 2016, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 73% and 27%.

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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$1,029.80
Expenses Paid per $1,000*	$ 4.69

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$1,020.24
Expenses Paid per $1,000*	$ 4.67

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Global Equity VIP	.93%

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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 4th quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. 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 (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). 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, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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

Notes

Deutsche
Asset Management

VS2GE-3 (R-028380-5 8/16)

Deutsche
Asset Management

June 30, 2016

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 and less liquid 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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

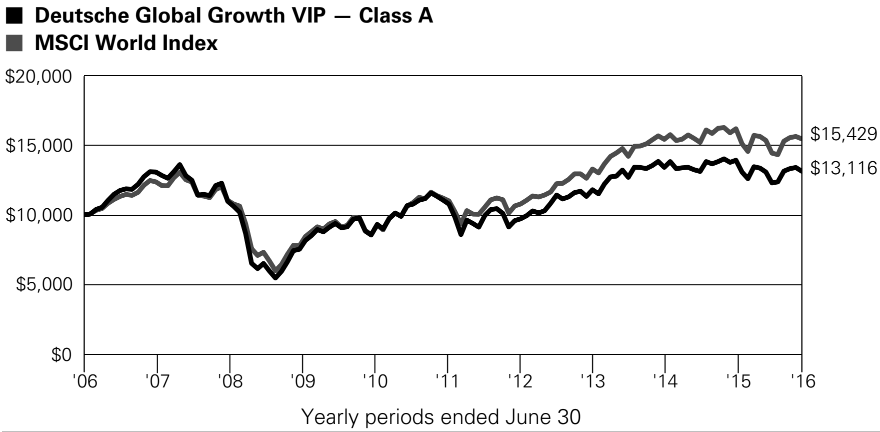
Performance Summary

June 30, 2016 (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, 2016 are 1.44% 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	$10,045	$9,534	$11,589	$11,859	$13,116
	Average annual total return	0.45%	–4.66%	5.04%	3.47%	2.75%
MSCI World Index	Growth of $10,000	$10,066	$9,722	$12,233	$13,783	$15,429
	Average annual total return	0.66%	–2.78%	6.95%	6.63%	4.43%

Deutsche Global Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,022	$9,496	$11,457	$11,655	$12,651
	Average annual total return	0.22%	–5.04%	4.64%	3.11%	2.38%
MSCI World Index	Growth of $10,000	$10,066	$9,722	$12,233	$13,783	$15,429
	Average annual total return	0.66%	–2.78%	6.95%	6.63%	4.43%

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)	**6/30/16**	**12/31/15**
Common Stocks	97%	97%
Cash Equivalents	3%	3%
Preferred Stock	0%	0%
Limited Partnership	0%	—
Warrants	0%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/16**	**12/31/15**
Health Care	21%	21%
Information Technology	15%	15%
Financials	14%	12%
Consumer Discretionary	13%	12%
Consumer Staples	12%	14%
Industrials	12%	13%
Energy	6%	5%
Materials	6%	6%
Telecommunication Services	1%	2%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/16**	**12/31/15**
United States	52%	46%
Canada	7%	6%
Germany	6%	7%
United Kingdom	6%	6%
Switzerland	5%	6%
Sweden	5%	6%
Japan	3%	2%
Ireland	2%	3%
Luxembourg	2%	2%
Finland	2%	2%
Netherlands	1%	2%
Hong Kong	1%	1%
Norway	1%	2%
Malaysia	1%	1%
Mexico	1%	1%
Philippines	1%	1%
France	1%	2%
Italy	0%	1%
Other	3%	3%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

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

Sebastian P. Werner, PhD
Co-Lead Portfolio Manager

Rafaelina M. Lee
Mark Schumann, CFA
Portfolio Managers

	Shares	Value ($)
Common Stocks 96.0%		
Australia 0.2%		
Austal Ltd.	29,100	26,501
G8 Education Ltd.	11,840	33,722
(Cost $61,918)		**60,223**
Bermuda 0.2%		
Lazard Ltd. "A"	1,491	**44,402**
(Cost $34,557)		
Canada 6.6%		
Agnico Eagle Mines Ltd.	12,500	668,950
Alimentation Couche-Tard, Inc. "B"	9,800	420,840
Brookfield Asset Management, Inc. "A"	21,000	694,717
Quebecor, Inc. "B"	2,374	68,026
SunOpta, Inc.*	6,381	26,736
(Cost $1,203,533)		**1,879,269**
China 0.6%		
Minth Group Ltd.	18,870	61,446
Tencent Holdings Ltd.	5,000	114,813
(Cost $144,073)		**176,259**
Finland 1.5%		
Cramo Oyj	2,741	56,451
Sampo Oyj "A"	8,700	354,154
(Cost $479,084)		**410,605**
France 0.7%		
Altran Technologies SA	4,339	57,671
Elior Participations SCA 144A	2,901	63,313
Flamel Technologies SA (ADR)*	6,494	69,746
Parrot SA*	1,288	18,032
(Cost $248,310)		**208,762**
Germany 6.2%		
Allianz SE (Registered)	1,800	257,405
BASF SE	3,200	244,357
Bayer AG (Registered)	2,400	240,858
Fresenius Medical Care AG & Co. KGaA	8,000	694,508
LANXESS AG	2,839	124,326
PATRIZIA Immobilien AG*	2,809	67,417
United Internet AG (Registered)	2,508	103,827
VIB Vermoegen AG	1,398	30,118
(Cost $1,701,435)		**1,762,816**
Hong Kong 1.2%		
AIA Group Ltd.	40,000	242,438
Techtronic Industries Co., Ltd.	23,097	96,605
(Cost $311,668)		**339,043**
India 0.2%		
WNS Holdings Ltd. (ADR)* (Cost $49,480)	1,714	**46,278**
Indonesia 0.1%		
PT Arwana Citramulia Tbk (Cost $58,152)	755,318	**34,885**

	Shares	Value ($)
Ireland 2.4%		
Greencore Group PLC	15,750	64,503
Kerry Group PLC "A"	5,400	478,573
Paddy Power Betfair PLC	680	71,312
Ryanair Holdings PLC (ADR) (a)	906	63,003
(Cost $550,696)		**677,391**
Israel 0.1%		
Mellanox Technologies Ltd.* (a) (Cost $29,611)	700	**33,572**
Italy 0.2%		
Prysmian SpA (Cost $62,235)	3,142	**68,737**
Japan 2.6%		
Ai Holdings Corp.	2,740	63,799
Anicom Holdings, Inc.	1,300	36,398
Asics Corp.	7,000	117,351
Daikyonishikawa Corp.	1,900	23,717
Kusuri No Aoki Co., Ltd.	1,358	88,167
MISUMI Group, Inc.	3,911	70,031
Nippon Seiki Co., Ltd.	2,783	45,201
Optex Co., Ltd.	1,500	38,463
Syuppin Co., Ltd. (b)	3,700	45,479
Topcon Corp.	2,600	25,494
United Arrows Ltd.	1,670	48,302
Universal Entertainment Corp.*	2,803	58,912
UT Group Co., Ltd.*	5,369	21,755
Zenkoku Hosho Co., Ltd.	1,600	57,892
(Cost $638,465)		**740,961**
Korea 0.1%		
i-SENS, Inc.* (Cost $35,741)	1,149	**36,609**
Luxembourg 2.1%		
Eurofins Scientific (Cost $362,350)	1,600	**593,564**
Malaysia 1.1%		
Hartalega Holdings Bhd.	29,294	31,512
IHH Healthcare Bhd.	127,000	207,993
Nirvana Asia Ltd. 144A	154,599	49,371
Tune Protect Group Bhd.	90,651	33,129
(Cost $294,378)		**322,005**
Mexico 1.1%		
Fomento Economico Mexicano SAB de CV (ADR) (Cost $293,461)	3,200	**295,968**
Netherlands 1.5%		
Brunel International NV	1,575	28,987
Core Laboratories NV (b) (c)	488	60,458
ING Groep NV (CVA)	22,000	225,112
SBM Offshore NV	2,242	26,191
Sensata Technologies Holding NV* (c)	2,000	69,780
(Cost $485,629)		**410,528**
Norway 1.2%		
Marine Harvest ASA* (Cost $230,864)	20,000	**334,049**
Panama 0.2%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $53,081)	2,375	**62,938**

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

	Shares	Value ($)
Philippines 0.9%		
Universal Robina Corp. (Cost $255,120)	54,500	**242,074**
Singapore 0.0%		
Lian Beng Group Ltd. (Cost $13,036)	31,264	**10,208**
Spain 0.1%		
Telepizza Group SA 144A* (Cost $47,373)	5,966	**37,076**
Sweden 4.4%		
Assa Abloy AB "B"	22,000	449,854
Meda AB "A"	26,000	470,580
Nobina AB 144A	10,392	55,457
Svenska Cellulosa AB "B"	8,800	281,035
(Cost $1,059,733)		**1,256,926**
Switzerland 4.6%		
Dufry AG (Registered)*	467	55,863
Galenica AG (Registered)	260	349,762
Lonza Group AG (Registered)*	2,200	364,130
Nestle SA (Registered)	6,800	525,000
(Cost $1,074,720)		**1,294,755**
Thailand 0.1%		
Malee Group PCL (Foreign Registered) (Cost $19,036)	18,299	**26,037**
United Kingdom 5.9%		
Aon PLC (c)	2,500	273,075
Arrow Global Group PLC	12,987	33,843
Auto Trader Group PLC 144A	7,500	35,565
AVEVA Group PLC	1,478	33,607
Babcock International Group PLC	5,468	66,188
Clinigen Healthcare Ltd.	5,959	48,200
Compass Group PLC	20,000	380,986
Crest Nicholson Holdings PLC	5,430	26,098
Domino's Pizza Group PLC	9,654	42,707
Halma PLC	19,000	258,170
Hargreaves Lansdown PLC	2,674	44,747
Howden Joinery Group PLC	7,445	38,237
Jardine Lloyd Thompson Group PLC	2,156	27,037
Polypipe Group PLC	9,188	31,940
Reckitt Benckiser Group PLC	3,150	315,814
Spirax-Sarco Engineering PLC	542	27,093
(Cost $1,492,230)		**1,683,307**
United States 49.9%		
AbbVie, Inc.	4,000	247,640
Acadia Healthcare Co., Inc.* (b)	4,500	249,300
Activision Blizzard, Inc.	8,500	336,855
Advance Auto Parts, Inc.	352	56,894
Affiliated Managers Group, Inc.*	303	42,653
Allergan PLC*	1,500	346,635
Alliance Data Systems Corp.*	1,700	333,064
Alphabet, Inc. "A"*	550	386,941
Amphenol Corp. "A"	12,000	687,960
AZZ, Inc.	1,090	65,378
Bank of America Corp.	15,300	203,031
Berry Plastics Group, Inc.*	760	29,526
Biogen, Inc.*	650	157,183
Bristol-Myers Squibb Co.	4,100	301,555
Cardtronics, Inc.*	1,473	58,640
Casey's General Stores, Inc.	740	97,317
CBRE Group, Inc. "A"*	7,000	185,360
Celgene Corp.*	3,500	345,205
Cerner Corp.*	4,000	234,400
Cognizant Technology Solutions Corp. "A"*	4,000	228,960
Danaher Corp.	5,500	555,500
Del Taco Restaurants, Inc.* (b)	5,397	49,113
Diamondback Energy, Inc.*	512	46,700
DigitalGlobe, Inc.*	906	19,379
Dollar General Corp.	4,500	423,000
Ecolab, Inc.	3,400	403,240
Encore Capital Group, Inc.* (b)	1,114	26,212
EOG Resources, Inc.	4,900	408,758
EPAM Systems, Inc.*	2,500	160,775
Exxon Mobil Corp.	3,000	281,220
Facebook, Inc. "A"*	2,200	251,416
FCB Financial Holdings, Inc. "A"*	1,117	37,978
Fox Factory Holding Corp.*	2,467	42,852
General Electric Co.	9,000	283,320
Gentherm, Inc.*	1,731	59,287
Hain Celestial Group, Inc.*	1,245	61,939
Harman International Industries, Inc.	3,577	256,900
Inphi Corp.*	1,008	32,286
Jack in the Box, Inc.	740	63,581
JPMorgan Chase & Co.	8,000	497,120
Kindred Healthcare, Inc.	3,112	35,134
Knowles Corp.* (b)	3,690	50,479
L Brands, Inc.	2,300	154,399
Ligand Pharmaceuticals, Inc.* (b)	457	54,506
Manitowoc Foodservice, Inc.* (b)	3,000	52,860
Masonite International Corp.*	600	39,684
MasterCard, Inc. "A"	6,500	572,390
Matador Resources Co.* (b)	1,894	37,501
MAXIMUS, Inc.	942	52,159
Medivation, Inc.*	1,500	90,450
Middleby Corp.*	674	77,679
Molina Healthcare, Inc.*	1,109	55,339
Nielsen Holdings PLC	3,000	155,910
NIKE, Inc. "B"	4,000	220,800
Noble Energy, Inc.	8,000	286,960
Oaktree Capital Group LLC (b)	1,295	57,964
On Assignment, Inc.*	1,235	45,633
Pacira Pharmaceuticals, Inc.*	1,428	48,166
PAREXEL International Corp.*	661	41,564
Polaris Industries, Inc. (b)	600	49,056
Primoris Services Corp.	2,985	56,506
Providence Service Corp.*	2,197	98,601
Retrophin, Inc.*	3,469	61,783
Schlumberger Ltd.	6,200	490,296
Sinclair Broadcast Group, Inc. "A"	1,988	59,362
South State Corp.	470	31,984
Stericycle, Inc.*	1,300	135,356
T-Mobile U.S., Inc.*	7,500	324,525
Tenneco, Inc.*	1,329	61,945
The WhiteWave Foods Co.*	1,300	61,022
Time Warner, Inc.	5,400	397,116
TiVo, Inc.*	5,034	49,837
TJX Companies, Inc.	3,600	278,028
Trinseo SA*	1,222	52,460
TriState Capital Holdings, Inc.*	4,035	55,401
Union Pacific Corp.	3,000	261,750

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

	Shares	Value ($)
United States Steel Corp. (b)	3,237	54,576
United Technologies Corp.	3,000	307,650
Urban Outfitters, Inc.*	1,535	42,213
VeriFone Systems, Inc.*	1,893	35,096
WABCO Holdings, Inc.*	825	75,545
WEX, Inc.*	434	38,483
Zions Bancorp.	2,100	52,773
Zoe's Kitchen, Inc.*	1,273	46,172
Zoetis, Inc.	6,500	308,490
(Cost $13,168,925)		**14,170,676**
Total Common Stocks (Cost $24,458,894)		**27,259,923**

Limited Partnership 0.0%

Bermuda

Brookfield Business Partners LP (Units)* (Cost 11,489)	420	**7,968**

Warrants 0.0%

France

Parrot SA, Expiration Date 12/22/2022*	924	467
Parrot SA, Expiration Date 12/15/2022*	924	296
Total Warrants (Cost $0)		**763**

	Shares	Value ($)

Preferred Stock 0.1%

United States

Providence Service Corp. (Cost $13,600)	136	**15,302**

Securities Lending Collateral 2.7%

Daily Assets Fund "Capital Shares", 0.51% (d) (e) (Cost $762,281)	762,281	**762,281**

Cash Equivalents 2.9%

Deutsche Central Cash Management Government Fund, 0.44% (d) (Cost $832,573)	832,573	**832,573**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $26,078,837)†	101.7	**28,878,810**
Other Assets and Liabilities, Net	(1.7)	**(485,009)**
Net Assets	100.0	**28,393,801**

* Non-income producing security.

† The cost for federal income tax purposes was $26,321,356. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $2,557,454. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,155,560 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,598,106.

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

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2016 amounted to $751,003, which is 2.6% of net assets.

(c) Listed on the New York Stock Exchange.

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

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

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, 2016 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	$ —	$ 33,722	$ 26,501	$ 60,223
Bermuda	44,402	—	—	52,370
Canada	1,879,269	—	—	1,879,269
China	—	176,259	—	176,259
Finland	—	410,605	—	410,605
France	69,746	139,016	—	208,762
Germany	—	1,762,816	—	1,762,816
Hong Kong	—	339,043	—	339,043
India	46,278	—	—	46,278
Indonesia	—	34,885	—	34,885
Ireland	63,003	614,388	—	677,391
Israel	33,572	—	—	33,572
Italy	—	68,737	—	68,737
Japan	—	740,961	—	740,961
Korea	—	36,609	—	36,609
Luxembourg	—	593,564	—	593,564
Malaysia	—	272,634	49,371	322,005
Mexico	295,968	—	—	295,968
Netherlands	130,238	280,290	—	410,528
Norway	—	334,049	—	334,049
Panama	62,938	—	—	62,938
Philippines	—	242,074	—	242,074
Singapore	—	10,208	—	10,208
Spain	—	37,076	—	37,076
Sweden	—	1,256,926	—	1,256,926
Switzerland	—	1,294,755	—	1,294,755
Thailand	—	26,037	—	26,037
United Kingdom	273,075	1,410,232	—	1,683,307
United States	14,170,676	—	—	14,170,676
Limited Partnership	7,968	—	—	7,968
Warrants	—	—	763	763
Preferred Stock	—	—	15,302	15,302
Short-Term Investments (f)	1,594,854	—	—	1,594,854
Total	**$ 18,671,987**	**$ 10,114,886**	**$ 91,937**	**$ 28,878,810**

During the period ended June 30, 2016, the amount of transfers between Level 2 and Level 3 was $63,826. The security was halted on the exchange and is valued in accordance with procedures approved by the Board. A significant difference between the value 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.

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

Statement of Assets and Liabilities

as of June 30, 2016 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $24,483,983) — including $751,003 of securities loaned	$ 27,283,956
Investment in Daily Assets Fund (cost $762,281)*	762,281
Investment in Deutsche Central Cash Management Government Fund (cost $832,573)	832,573
Total investments in securities, at value (cost $26,078,837)	28,878,810
Foreign currency, at value (cost $322,853)	320,281
Receivable for investments sold	3,539
Receivable for Fund shares sold	16,875
Dividends receivable	24,729
Interest receivable	849
Foreign taxes recoverable	19,880
Other assets	776
Total assets	29,265,739
Liabilities	
Payable upon return of securities loaned	762,281
Payable for investments purchased	8,705
Payable for Fund shares redeemed	18,756
Accrued Directors' fees	506
Other accrued expenses and payables	81,690
Total liabilities	871,938
Net assets, at value	**28,393,801**
Net Assets Consist of	
Undistributed net investment income	70,900
Net unrealized appreciation (depreciation) on:	
Investments	2,799,973
Foreign currency	(5,434)
Accumulated net realized gain (loss)	(41,922,536)
Paid-in capital	67,450,898
Net assets, at value	**28,393,801**
Class A	
Net Asset Value, offering and redemption price per share ($28,336,896 ÷ 2,632,492 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 10.76**
Class B	
Net Asset Value, offering and redemption price per share ($56,905 ÷ 5,272 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 10.79**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $25,302)	$ 288,703
Income distributions — Deutsche Central Cash Management Government Fund	1,386
Securities lending income, including income from Daily Assets Fund, net of borrower rebates	5,482
Total income	295,571
Expenses:	
Management fee	133,921
Administration fee	14,636
Services to shareholders	591
Distribution service fee (Class B)	69
Custodian fee	33,110
Professional fees	39,256
Reports to shareholders	15,080
Directors' fees and expenses	1,820
Other	13,190
Total expenses before expense reductions	251,673
Expense reductions	(115,376)
Total expenses after expense reductions	136,297
Net investment income (loss)	**159,274**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(312,076)
Foreign currency	11,351
	(300,725)
Change in net unrealized appreciation (depreciation) on:	
Investments	(8,722)
Foreign currency	1,334
	(7,388)
Net gain (loss)	**(308,113)**
Net increase (decrease) in net assets resulting from operations	**$ (148,839)**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income (loss)	$ 159,274	$ 289,213
Net realized gain (loss)	(300,725)	153,277
Change in net unrealized appreciation (depreciation)	(7,388)	(828,051)
Net increase (decrease) in net assets resulting from operations	(148,839)	(385,561)
Distributions to shareholders from:		
Net investment income:		
Class A	(243,128)	(371,824)
Class B	(285)	(513)
Total distributions	(243,413)	(372,337)
Fund share transactions:		
Class A		
Proceeds from shares sold	498,439	1,554,080
Reinvestment of distributions	243,128	371,824
Payments for shares redeemed	(5,688,996)	(14,574,128)
Net increase (decrease) in net assets from Class A share transactions	(4,947,429)	(12,648,224)
Class B		
Proceeds from shares sold	2,953	8,017
Reinvestment of distributions	285	513
Payments for shares redeemed	(10,602)	(52,359)
Net increase (decrease) in net assets from Class B share transactions	(7,364)	(43,829)
Increase (decrease) in net assets	(5,347,045)	(13,449,951)
Net assets at beginning of period	33,740,846	47,190,797
Net assets at end of period (including undistributed net investment income of $70,900 and $155,039, respectively)	**$ 28,393,801**	**$ 33,740,846**

Other Information		
Class A		
Shares outstanding at beginning of period	3,116,107	4,265,093
Shares sold	47,775	137,321
Shares issued to shareholders in reinvestment of distributions	22,163	31,944
Shares redeemed	(553,553)	(1,318,251)
Net increase (decrease) in Class A shares	(483,615)	(1,148,986)
Shares outstanding at end of period	**2,632,492**	**3,116,107**
Class B		
Shares outstanding at beginning of period	6,040	10,038
Shares sold	281	716
Shares issued to shareholders in reinvestment of distributions	26	44
Shares redeemed	(1,075)	(4,758)
Net increase (decrease) in Class B shares	(768)	(3,998)
Shares outstanding at end of period	**5,272**	**6,040**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$10.81**	**$11.04**	**$11.13**	**$ 9.24**	**$ 7.90**	**$ 9.28**
Income (loss) from investment operations:						
Net investment income[a]	.06	.07	.08	.10	.12	.11
Net realized and unrealized gain (loss)	(.02)	(.21)	(.06)	1.92	1.34	(1.43)
Total from investment operations	.04	(.14)	.02	2.02	1.46	(1.32)
Less distributions from:						
Net investment income	(.09)	(.09)	(.11)	(.13)	(.12)	(.06)
Net asset value, end of period	**$10.76**	**$10.81**	**$11.04**	**$11.13**	**$ 9.24**	**$ 7.90**
Total Return (%)[b]	.45**	(1.32)	.21	22.08	18.60	(14.39)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	28	34	47	51	54	49
Ratio of expenses before expense reductions (%)	1.72*	1.44	1.41	1.45	1.42	1.37
Ratio of expenses after expense reductions (%)	.93*	.90	.82	.88	.99	1.03
Ratio of net investment income (%)	1.09*	.65	.71	1.00	1.40	1.24
Portfolio turnover rate (%)	19**	64	63	171	107	127

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 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$10.82**	**$11.05**	**$11.14**	**$ 9.25**	**$ 7.91**	**$ 9.29**
Income (loss) from investment operations:						
Net investment income[a]	.04	.05	.02	.07	.09	.08
Net realized and unrealized gain (loss)	(.01)	(.23)	(.04)	1.92	1.34	(1.44)
Total from investment operations	.03	(.18)	(.02)	1.99	1.43	(1.36)
Less distributions from:						
Net investment income	(.06)	(.05)	(.07)	(.10)	(.09)	(.02)
Net asset value, end of period	**$10.79**	**$10.82**	**$11.05**	**$11.14**	**$ 9.25**	**$ 7.91**
Total Return (%)[b]	.22**	(1.64)	(.15)	21.62	18.16	(14.67)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.1	.1	.1	3	3	3
Ratio of expenses before expense reductions (%)	2.06*	1.76	1.76	1.81	1.76	1.72
Ratio of expenses after expense reductions (%)	1.25*	1.22	1.15	1.23	1.34	1.38
Ratio of net investment income (%)	.79*	.40	.14	.66	1.04	.88
Portfolio turnover rate (%)	19**	64	63	171	107	127

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.

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. The 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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. 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.

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, a portion of which may be recoverable. Based upon the current interpretation of the tax rules and regulations, estimated tax liabilities and recoveries 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, 2015, the Fund had a net tax basis capital loss carryforward of approximately $41,202,000 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 ($23,413,000) and December 31, 2017 ($17,789,000), the respective expiration dates, whichever occurs first.

From November 1, 2015 through December 31, 2015, the Fund elects to defer qualified late year losses of approximately $ 252,000 of net short-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2016.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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. Purchases and Sales of Securities

During the six months ended June 30, 2016, purchases and sales of investment transactions (excluding short-term investments) aggregated $5,551,583 and $10,514,945, respectively.

C. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. (“DIMA” or the “Advisor”), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Fund.

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

First $250 million	.915%
Next $500 million	.865%
Next $750 million	.815%
Next $1.5 billion	.765%
Over $3 billion	.715%

Accordingly, for the six months ended June 30, 2016, 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, 2016 through April 30, 2016, 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 each class as follows:

Class A	.90%
Class B	1.25%

Effective May 1, 2016 through April 30, 2017, 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	1.25%

For the six months ended June 30, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 115,152
Class B	224
	$ 115,376

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, 2016, the Administration Fee was $14,636, of which $2,381 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2016
Class A	$ 146	$ 77
Class B	25	15
	$ 171	**$ 92**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, Deutsche AM 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, 2016, the Distribution Service Fee aggregated $69, of which $12 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $6,090, of which $5,239 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 64% and 28%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 81% 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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,004.50	$1,002.20
Expenses Paid per $1,000*	$ 4.63	$ 6.22
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,020.24	$1,018.65
Expenses Paid per $1,000*	$ 4.67	$ 6.27

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Global Growth VIP	.93%	1.25%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 4th quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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

Notes

Deutsche
Asset Management

VS2GG-3 (R-028383-5 8/16)

Deutsche
Asset Management

June 30, 2016

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 and less liquid 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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

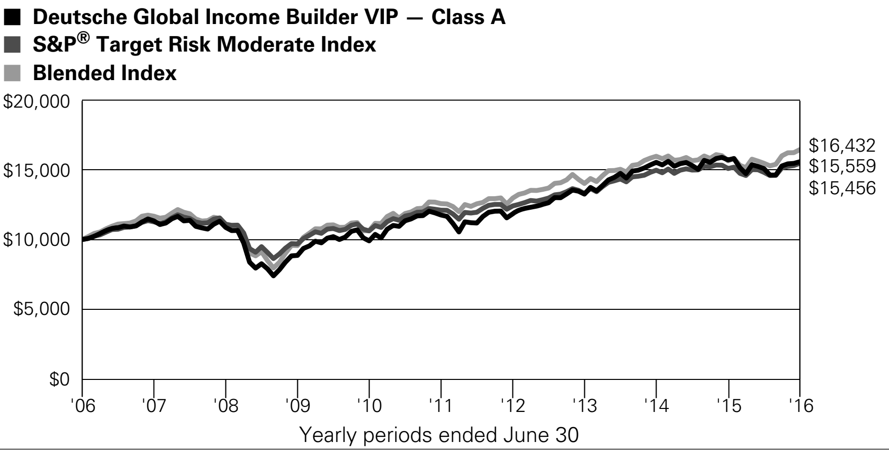
Performance Summary

June 30, 2016 (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, 2016 is 0.63% 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.

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

Comparative Results

Deutsche Global Income Builder VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,322	$9,916	$11,751	$13,241	$15,559
	Average annual total return	3.22%	–0.84%	5.53%	5.77%	4.52%
S&P® Target Risk Moderate Index	Growth of $10,000	$10,438	$10,255	$11,630	$12,781	$15,456
	Average annual total return	4.38%	2.55%	5.16%	5.03%	4.45%
Blended Index	Growth of $10,000	$10,634	$10,515	$11,736	$13,077	$16,432
	Average annual total return	6.34%	5.15%	5.48%	5.51%	5.09%

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)	**6/30/16**	**12/31/15**
Equity	**63%**	**59%**
Common Stocks	58%	59%
Exchange-Traded Funds	5%	—
Fixed Income	**35%**	**35%**
Government & Agency Obligations	16%	8%
Exchange-Traded Funds	7%	—
Corporate Bonds	7%	20%
Collateralized Mortgage Obligations	2%	2%
Mortgage-Backed Securities Pass-Throughs	1%	3%
Commercial Mortgage-Backed Securities	1%	1%
Asset-Backed	1%	1%
Municipal Bonds and Notes	0%	0%
Cash Equivalents	**2%**	**6%**
	100%	100%

Sector Diversification (As a % of Equities, Corporate Bonds, Preferred Securities, Convertible Bonds and Other Investments)	**6/30/16**	**12/31/15**
Financials	24%	30%
Consumer Staples	13%	7%
Industrials	10%	8%
Consumer Discretionary	9%	9%
Information Technology	9%	19%
Telecommunication Services	9%	6%
Health Care	8%	7%
Utilities	8%	7%
Energy	6%	4%
Materials	4%	3%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

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

	Shares	Value ($)
Common Stocks 57.9%		
Consumer Discretionary 5.6%		
Auto Components 0.7%		
Aisin Seiki Co., Ltd.	2,464	99,461
Bridgestone Corp.	7,205	229,294
Cie Generale des Etablissements Michelin	224	21,236
Delphi Automotive PLC	1,343	84,072
Denso Corp.	79	2,759
Goodyear Tire & Rubber Co.	7,760	199,121
Johnson Controls, Inc.	1,810	80,111
Lear Corp.	1,201	122,214
Magna International, Inc.	2,173	76,277
Sumitomo Electric Industries Ltd.	15,305	200,750
Sumitomo Rubber Industries Ltd.	11,693	155,485
Toyota Industries Corp.	79	3,119
Yokohama Rubber Co., Ltd.	10,600	131,752
		1,405,651
Automobiles 1.3%		
Bayerische Motoren Werke (BMW) AG	1,087	79,814
Daihatsu Motor Co., Ltd.	7,000	90,130
Daimler AG (Registered)	3,109	185,976
Ford Motor Co.	27,315	343,349
Fuji Heavy Industries Ltd.	5,200	177,085
General Motors Co.	11,123	314,781
Honda Motor Co., Ltd.	9,550	240,426
Isuzu Motors Ltd.	14,500	177,142
Mazda Motor Corp.	3,400	45,610
Mitsubishi Motors Corp.	8,638	39,520
Nissan Motor Co., Ltd.	43,085	386,512
Renault SA	1,152	87,882
Toyota Motor Corp.	5,690	281,252
		2,449,479
Hotels, Restaurants & Leisure 0.5%		
Carnival Corp.	4,488	198,369
Dawn Holdings, Inc.* (a)	1	1,385
McDonald's Corp.	2,823	339,720
Royal Caribbean Cruises Ltd. (b)	738	49,557
Starbucks Corp.	2,533	144,685
Yum! Brands, Inc.	1,810	150,085
		883,801
Household Durables 0.4%		
Barratt Developments PLC	15,305	83,014
Berkeley Group Holdings PLC	2,640	89,623
Mohawk Industries, Inc.*	724	137,386
Persimmon PLC	5,683	110,620
Sekisui House Ltd.	12,454	216,627
Toll Brothers, Inc.*	462	12,432
Whirlpool Corp.	412	68,656
		718,358
Leisure Products 0.0%		
Hasbro, Inc.	851	**71,476**
Media 1.3%		
CBS Corp. "B"	1,086	59,122
Charter Communications, Inc. "A"*	517	118,207
Comcast Corp. "A"	11,444	746,034
ITV PLC	57,486	139,029
News Corp. "A"	5,067	57,510
Omnicom Group, Inc.	579	47,183
Scripps Networks Interactive, Inc. "A" (b)	2,100	130,767
SES	5	108
Shaw Communications, Inc. "B"	6,877	132,009
Sky PLC	9,730	110,469
Thomson Reuters Corp.	3,909	158,151
Time Warner, Inc.	3,727	274,084
Twenty-First Century Fox, Inc. "A"	2,823	76,362
Twenty-First Century Fox, Inc. "B"	4,343	118,347
Walt Disney Co.	2,109	206,302
WPP PLC	4,192	87,140
		2,460,824
Multiline Retail 0.3%		
Canadian Tire Corp., Ltd. "A"	145	15,797
Dollar General Corp.	1,810	170,140
Kohl's Corp.	3,040	115,277
Macy's, Inc.	2,027	68,127
Target Corp.	3,402	237,528
		606,869
Specialty Retail 0.8%		
Advance Auto Parts, Inc.	1,109	179,248
AutoZone, Inc.* (b)	290	230,214
Bed Bath & Beyond, Inc. (b)	869	37,558
Best Buy Co., Inc.	4,434	135,681
Foot Locker, Inc. (b)	2,402	131,774
Home Depot, Inc.	1,883	240,440
L Brands, Inc.	2,956	198,436
Lowe's Companies, Inc.	1,231	97,458
Staples, Inc.	16,536	142,540
The Gap, Inc. (b)	796	16,891
TJX Companies, Inc.	1,448	111,829
		1,522,069
Textiles, Apparel & Luxury Goods 0.3%		
NIKE, Inc. "B"	1,042	57,519
Swatch Group AG (Bearer)	189	54,954
Swatch Group AG (Registered)	1,593	90,969
VF Corp.	2,441	150,097
Yue Yuen Industrial (Holdings) Ltd.	52,476	209,323
		562,862
Consumer Staples 8.1%		
Beverages 1.5%		
Anheuser-Busch InBev SA	2,306	302,068
Asahi Group Holdings Ltd.	3,500	112,836
Brown-Forman Corp. "B"	1,293	128,990
Carlsberg AS "B"	1,597	152,174
Coca-Cola Co.	8,285	375,559
Coca-Cola European Partners PLC	2,217	79,125
Constellation Brands, Inc. "A"	1,940	320,876
Diageo PLC	2,606	72,716
Dr. Pepper Snapple Group, Inc. (b)	2,389	230,849
Heineken Holding NV	1,614	131,477
Heineken NV	1,722	158,700
Kirin Holdings Co., Ltd.	9,300	156,498
Molson Coors Brewing Co. "B"	2,309	233,509
PepsiCo, Inc.	3,295	349,072
Suntory Beverage & Food Ltd.	3,700	166,670
		2,971,119
Food & Staples Retailing 1.9%		
Casino Guichard-Perrachon SA	484	27,011
Colruyt SA	4,934	271,992

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

	Shares	Value ($)
Costco Wholesale Corp.	1,231	193,316
CVS Health Corp.	4,011	384,013
Delhaize Group	1,667	175,036
Empire Co., Ltd. "A"	8,686	129,152
FamilyMart Co., Ltd.	2,200	133,937
George Weston Ltd.	1,707	147,730
ICA Gruppen AB	4,594	153,469
J Sainsbury PLC	48,475	151,426
Koninklijke Ahold NV	4,080	90,437
Kroger Co.	7,348	270,333
Lawson, Inc.	3,300	262,521
Loblaw Companies Ltd.	1,622	86,765
Metro, Inc.	3,692	128,625
Seven & I Holdings Co., Ltd.	3,767	156,993
Sysco Corp.	3,474	176,271
Wal-Mart Stores, Inc.	5,646	412,271
Walgreens Boots Alliance, Inc.	2,074	172,702
Wesfarmers Ltd.	3,522	105,958
Woolworths Ltd.	3,923	61,410
		3,691,368
Food Products 3.0%		
Archer-Daniels-Midland Co.	4,922	211,105
Bunge Ltd.	3,045	180,112
Campbell Soup Co.	5,820	387,205
ConAgra Foods, Inc.	4,126	197,264
General Mills, Inc.	4,416	314,949
Hormel Foods Corp.	8,754	320,396
Kellogg Co.	4,156	339,337
Kraft Heinz Co.	2,864	253,407
McCormick & Co., Inc.	2,347	250,354
Mondelez International, Inc. "A"	7,094	322,848
Nestle SA (Registered)	8,758	676,169
NH Foods Ltd.	6,000	145,647
Nisshin Seifun Group, Inc.	18,800	300,549
Nissin Foods Holdings Co., Ltd.	5,300	288,395
Tate & Lyle PLC	18,040	161,981
The Hershey Co. (b)	1,853	210,297
The JM Smucker Co.	1,448	220,690
Toyo Suisan Kaisha Ltd.	6,600	265,918
Tyson Foods, Inc. "A"	6,515	435,137
Wilmar International Ltd.	75,212	183,156
		5,664,916
Household Products 0.7%		
Church & Dwight Co., Inc.	2,959	304,452
Clorox Co.	2,018	279,271
Colgate-Palmolive Co.	2,244	164,261
Henkel AG & Co. KGaA	108	11,647
Kimberly-Clark Corp.	1,883	258,875
Procter & Gamble Co.	4,218	357,138
		1,375,644
Tobacco 1.0%		
Altria Group, Inc.	4,998	344,662
British American Tobacco PLC	4,239	275,516
Imperial Brands PLC	4,374	238,105
Japan Tobacco, Inc.	5,477	219,355
Philip Morris International, Inc.	3,619	368,125
Reynolds American, Inc.	8,192	441,795
		1,887,558
Energy 3.1%		
Energy Equipment & Services 0.1%		
Schlumberger Ltd.	2,100	**166,068**

	Shares	Value ($)
Oil, Gas & Consumable Fuels 3.0%		
BP PLC	50,252	294,229
Chevron Corp.	3,215	337,028
Eni SpA	7,513	121,351
Exxon Mobil Corp.	8,543	800,821
HollyFrontier Corp.	4,332	102,972
Idemitsu Kosan Co., Ltd.	12,727	274,096
JX Holdings, Inc.	38,985	151,887
Marathon Petroleum Corp.	690	26,192
Neste Oyj	3,895	139,152
Occidental Petroleum Corp.	6,749	509,954
OMV AG	10,870	305,169
Phillips 66 (b)	3,765	298,715
Royal Dutch Shell PLC "A"	9,578	259,511
Royal Dutch Shell PLC "B"	4,401	120,332
Spectra Energy Corp.	3,185	116,667
Statoil ASA	5,548	95,070
Tesoro Corp.	1,655	123,993
TonenGeneral Sekiyu KK	6,000	54,279
TOTAL SA	4,701	226,064
TransCanada Corp.	2,100	95,024
Valero Energy Corp.	6,617	337,467
Vermilion Energy, Inc.	28,638	911,930
		5,701,903
Financials 12.6%		
Banks 4.1%		
Aozora Bank Ltd.	31,174	107,538
Bank Hapoalim BM	82,584	416,267
Bank Leumi Le-Israel BM*	93,489	328,115
Bank of America Corp.	10,303	136,721
Bank of East Asia Ltd.	20,266	78,601
Bank of Montreal	2,982	189,152
Bank of Nova Scotia	1,798	88,108
BB&T Corp.	5,718	203,618
BNP Paribas SA	821	36,386
BOC Hong Kong (Holdings) Ltd.	50,927	153,353
Canadian Imperial Bank of Commerce (b)	2,194	164,794
Citizens Financial Group, Inc.	11,917	238,102
Commonwealth Bank of Australia	122	6,811
Danske Bank AS	10,310	271,288
DBS Group Holdings Ltd.	9,671	113,671
Fifth Third Bancorp.	3,790	66,666
HSBC Holdings PLC	23,453	145,108
Huntington Bancshares, Inc. (b)	15,705	140,403
JPMorgan Chase & Co.	3,849	239,177
KBC Group NV*	3,014	147,600
KeyCorp	186	2,055
Lloyds Banking Group PLC	154,037	111,292
M&T Bank Corp.	1,810	213,996
Mitsubishi UFJ Financial Group, Inc.	3,054	13,639
Mizrahi Tefahot Bank Ltd.	6,928	79,976
Mizuho Financial Group, Inc.	122,173	177,133
Nordea Bank AB	48,122	405,291
Oversea-Chinese Banking Corp., Ltd.	23,855	154,471
People's United Financial, Inc. (b)	12,956	189,935
PNC Financial Services Group, Inc.	1,367	111,260
Regions Financial Corp.	8,139	69,263
Resona Holdings, Inc.	369,556	1,344,451
Royal Bank of Canada	4,488	265,191

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

	Shares	Value ($)
Skandinaviska Enskilda Banken AB "A"	1,868	16,168
SunTrust Banks, Inc.	4,505	185,065
Svenska Handelsbanken AB "A"	4,124	49,790
Swedbank AB "A"	7,769	162,203
The Chugoku Bank Ltd.	7,000	70,930
Toronto-Dominion Bank (b)	4,831	207,457
U.S. Bancorp.	7,455	300,660
United Overseas Bank Ltd.	8,702	119,639
Wells Fargo & Co.	7,916	374,664
Yamaguchi Financial Group, Inc.	5,021	47,149
		7,943,157
Capital Markets 0.2%		
Bank of New York Mellon Corp.	3,112	120,901
BlackRock, Inc.	290	99,334
Credit Suisse Group AG (Registered)*	7,176	75,998
UBS Group AG (Registered)	6,378	82,381
		378,614
Consumer Finance 0.7%		
American Express Co.	507	30,805
Discover Financial Services	1,810	96,998
Navient Corp.	99,956	1,194,474
		1,322,277
Diversified Financial Services 0.5%		
Berkshire Hathaway, Inc. "B"*	1,417	205,168
CME Group, Inc.	1,883	183,404
Groupe Bruxelles Lambert SA	2,354	192,459
Industrivarden AB "C"	2,099	33,934
Intercontinental Exchange, Inc.	290	74,228
Investor AB "B"	2,094	69,870
Nasdaq, Inc.	1,086	70,232
Pargesa Holding SA (Bearer)	2,110	139,030
		968,325
Insurance 5.5%		
Admiral Group PLC	6,047	165,315
Aflac, Inc.	4,229	305,165
Ageas	6,806	234,841
Alleghany Corp.*	435	239,067
Allianz SE (Registered)	1,207	172,604
Allstate Corp.	4,048	283,157
American International Group, Inc.	4,475	236,683
Aon PLC	435	47,515
Arch Capital Group Ltd.*	2,389	172,008
Assicurazioni Generali SpA	10,604	124,349
Assurant, Inc.	2,895	249,867
Aviva PLC	15,029	78,902
AXA SA	10,123	200,401
Axis Capital Holdings Ltd.	4,909	269,995
Baloise Holding AG (Registered)	3,025	335,872
Chubb Ltd.	3,431	448,466
Direct Line Insurance Group PLC	26,051	120,677
Everest Re Group Ltd. (b)	2,096	382,876
Fairfax Financial Holdings Ltd.	370	199,278
FNF Group	4,342	162,825
Great-West Lifeco, Inc.	4,126	108,839
Hannover Rueck SE	979	102,185
Hartford Financial Services Group, Inc.	6,121	271,650
Legal & General Group PLC	1,839	4,705
Loews Corp.	5,429	223,078
Marsh & McLennan Companies, Inc.	1,013	69,350

	Shares	Value ($)
MetLife, Inc.	1,142	45,486
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	1,203	201,144
NN Group NV	11,160	307,081
Principal Financial Group, Inc.	1,013	41,644
Progressive Corp.	4,560	152,760
Prudential Financial, Inc.	1,063	75,834
RenaissanceRe Holdings Ltd.	1,872	219,848
Sampo Oyj "A"	3,223	131,200
SCOR SE	4,841	144,441
Sompo Japan Nipponkoa Holdings, Inc.	4,700	124,029
Swiss Life Holding AG (Registered)*	1,785	410,932
Swiss Re AG	1,311	114,123
The Travelers Companies, Inc.	1,495	177,965
Tokio Marine Holdings, Inc.	4,000	131,733
Torchmark Corp.	2,606	161,103
Unum Group	7,166	227,807
XL Group PLC	6,008	200,126
Zurich Insurance Group AG*	9,846	2,422,809
		10,499,735
Real Estate Investment Trusts 1.1%		
AvalonBay Communities, Inc. (REIT)	739	133,308
Crown Castle International Corp. (REIT)	1,478	149,913
Dexus Property Group (REIT)	11,978	80,994
H&R Real Estate Investment Trust (REIT) (Units)	11,812	205,804
HCP, Inc. (REIT)	6,559	232,057
Realty Income Corp. (REIT) (b)	2,125	147,390
Two Harbors Investment Corp. (REIT)	92,262	789,763
VEREIT, Inc. (REIT)	11,640	118,030
Vicinity Centres (REIT)	40,703	101,380
Welltower, Inc. (REIT)	2,864	218,151
		2,176,790
Real Estate Management & Development 0.4%		
Henderson Land Development Co., Ltd.	16,514	93,393
New World Development Co., Ltd.	44,151	45,074
Sun Hung Kai Properties Ltd.	11,536	139,280
Swire Pacific Ltd. "A"	12,305	140,257
Swiss Prime Site AG (Registered)*	1,553	140,483
Wharf Holdings Ltd.	6,835	41,696
Wheelock & Co., Ltd.	37,971	179,381
		779,564
Thrifts & Mortgage Finance 0.1%		
New York Community Bancorp., Inc. (b)	8,036	**120,459**
Health Care 4.9%		
Biotechnology 0.8%		
AbbVie, Inc.	5,026	311,160
Amgen, Inc.	2,109	320,884
Biogen, Inc.*	1,041	251,735
Gilead Sciences, Inc.	4,540	378,727
Shire PLC	2,739	170,179
United Therapeutics Corp.*	1,109	117,465
		1,550,150
Health Care Equipment & Supplies 0.5%		
Abbott Laboratories	5,212	204,884
Baxter International, Inc.	2,461	111,286
Becton, Dickinson & Co.	1,076	182,479

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

	Shares	Value ($)
Medtronic PLC	3,402	295,191
Stryker Corp.	1,099	131,693
Zimmer Biomet Holdings, Inc.	507	61,033
		986,566
Health Care Providers & Services 1.3%		
Aetna, Inc.	2,511	306,668
AmerisourceBergen Corp.	1,303	103,354
Anthem, Inc.	2,358	309,700
Cardinal Health, Inc.	1,810	141,198
Cigna Corp.	1,301	166,515
DaVita HealthCare Partners, Inc.*	1,940	150,001
Express Scripts Holding Co.*	2,895	219,441
HCA Holdings, Inc.*	1,121	86,328
Humana, Inc.	826	148,581
Laboratory Corp. of America Holdings*	796	103,695
McKesson Corp.	941	175,638
Quest Diagnostics, Inc.	2,153	175,276
UnitedHealth Group, Inc.	2,957	417,528
		2,503,923
Life Sciences Tools & Services 0.2%		
Thermo Fisher Scientific, Inc.	1,883	**278,232**
Pharmaceuticals 2.1%		
Allergan PLC*	1,281	296,026
Astellas Pharma, Inc.	8,400	131,291
AstraZeneca PLC	4,399	262,983
Bristol-Myers Squibb Co.	3,112	228,888
Eli Lilly & Co.	2,968	233,730
GlaxoSmithKline PLC	16,150	347,858
Johnson & Johnson	3,330	403,929
Merck & Co., Inc.	5,139	296,058
Mylan NV*	1,086	46,959
Novartis AG (Registered)	3,436	282,545
Novo Nordisk AS ''B"	3,560	192,570
Orion Oyj "B"	3,170	122,631
Perrigo Co. PLC	362	32,822
Pfizer, Inc.	12,522	440,900
Roche Holding AG (Genusschein)	1,027	270,556
Sanofi	1,414	117,641
Takeda Pharmaceutical Co., Ltd.	2,300	99,184
Teva Pharmaceutical Industries Ltd.	4,930	246,594
		4,053,165

Industrials 5.9%

	Shares	Value ($)
Aerospace & Defense 0.8%		
BAE Systems PLC	11,050	77,940
Boeing Co.	1,376	178,701
General Dynamics Corp.	986	137,291
Honeywell International, Inc.	2,606	303,130
L-3 Communications Holdings, Inc.	260	38,139
Lockheed Martin Corp.	709	175,953
Northrop Grumman Corp.	867	192,717
Raytheon Co.	1,352	183,804
Rockwell Collins, Inc.	869	73,987
United Technologies Corp.	2,389	244,992
		1,606,654
Air Freight & Logistics 0.2%		
FedEx Corp.	724	109,888
Royal Mail PLC	22,113	148,516
United Parcel Service, Inc. "B"	1,086	116,984
		375,388
Airlines 0.5%		
ANA Holdings, Inc.	10,000	28,360
Cathay Pacific Airways Ltd.	57,083	84,068
Delta Air Lines, Inc.	6,138	223,607
easyJet PLC	3,619	52,782
Japan Airlines Co., Ltd.	8,800	282,205
Singapore Airlines Ltd.	5,974	47,410
Southwest Airlines Co.	6,146	240,985
		959,417
Building Products 0.0%		
Congoleum Corp.*	3,800	**0**
Commercial Services & Supplies 0.3%		
G4S PLC	28	69
Quad Graphics, Inc.	13	303
Republic Services, Inc.	4,777	245,108
Tyco International PLC	2,172	92,527
Waste Management, Inc.	2,027	134,329
		472,336
Electrical Equipment 0.2%		
ABB Ltd. (Registered)*	7,980	157,039
AMETEK, Inc.	1,231	56,909
Eaton Corp. PLC	389	23,235
Emerson Electric Co.	2,100	109,536
		346,719
Industrial Conglomerates 0.7%		
3M Co.	761	133,266
CK Hutchison Holdings Ltd.	15,701	172,248
Danaher Corp.	2,461	248,561
General Electric Co.	8,349	262,826
Keppel Corp., Ltd.	19,400	79,939
NWS Holdings Ltd.	22,171	35,264
Roper Technologies, Inc.	796	135,766
Sembcorp Industries Ltd.	20,238	42,771
Siemens AG (Registered)	1,153	117,937
		1,228,578
Machinery 0.4%		
AGCO Corp.	1,165	54,906
Caterpillar, Inc. (b)	796	60,345
Deere & Co. (b)	273	22,124
Illinois Tool Works, Inc.	507	52,809
Mitsubishi Heavy Industries Ltd.	25,000	99,365
PACCAR, Inc. (b)	1,158	60,065
SembCorp Marine Ltd. (b)	167,200	194,656
SKF AB "B"	27	431
Stanley Black & Decker, Inc.	1,231	136,912
Yangzijiang Shipbuilding Holdings Ltd.	126,907	84,857
		766,470
Marine 0.3%		
A P Moller-Maersk AS "A"	193	243,654
A P Moller-Maersk AS "B"	155	203,110
Nippon Yusen Kabushiki Kaisha	77,050	134,590
		581,354
Professional Services 0.1%		
Adecco Group AG (Registered)	363	18,256
Nielsen Holdings PLC	3,829	198,993
		217,249
Road & Rail 0.3%		
Canadian National Railway Co.	218	12,873
CSX Corp.	3,547	92,506
East Japan Railway Co.	997	91,855

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

	Shares	Value ($)
MTR Corp., Ltd.	25,695	130,665
Norfolk Southern Corp.	796	67,763
Union Pacific Corp.	2,027	176,856
West Japan Railway Co.	1,161	73,085
		645,603
Trading Companies & Distributors 1.2%		
ITOCHU Corp.	22,539	273,275
Marubeni Corp.	223,549	1,003,226
Mitsubishi Corp.	13,628	238,360
Mitsui & Co., Ltd.	26,051	308,789
Sumitomo Corp.	29,866	298,862
W.W. Grainger, Inc. (b)	579	131,578
		2,254,090
Transportation Infrastructure 0.9%		
Transurban Group (Units)	193,984	**1,743,812**

Information Technology 5.4%

	Shares	Value ($)
Communications Equipment 0.5%		
Cisco Systems, Inc.	16,535	474,389
Harris Corp.	1,449	120,905
Juniper Networks, Inc.	7,172	161,298
Motorola Solutions, Inc.	730	48,158
Telefonaktiebolaget LM Ericsson “B”	17,824	136,272
		941,022
Electronic Equipment, Instruments & Components 0.7%		
Amphenol Corp. “A”	1,449	83,071
Arrow Electronics, Inc.*	2,335	144,537
Avnet, Inc.	6,153	249,258
Corning, Inc.	8,721	178,606
Flextronics International Ltd.*	13,495	159,241
Hitachi Ltd.	37,485	155,694
Murata Manufacturing Co., Ltd.	606	67,409
TE Connectivity Ltd.	4,054	231,524
		1,269,340
Internet Software & Services 0.1%		
eBay, Inc.*	7,060	**165,275**
IT Services 1.5%		
Accenture PLC “A”	2,286	258,981
Atos SE	1,549	128,546
Automatic Data Processing, Inc.	2,986	274,324
Fidelity National Information Services, Inc.	3,601	265,322
Fiserv, Inc.*	1,996	217,025
Fujitsu Ltd.	24,000	87,611
International Business Machines Corp.	2,823	428,475
Paychex, Inc.	2,823	167,968
Total System Services, Inc.	2,079	110,416
Vantiv, Inc. “A”*	3,112	176,139
Visa, Inc. “A” (b)	3,865	286,667
Western Union Co. (b)	11,509	220,743
Xerox Corp.	20,974	199,043
		2,821,260
Semiconductors & Semiconductor Equipment 0.7%		
Analog Devices, Inc.	2,389	135,313
Broadcom Ltd.	1,551	241,025
Intel Corp.	9,860	323,408
KLA-Tencor Corp.	421	30,838
Lam Research Corp. (b)	59	4,959
Marvell Technology Group Ltd.	4,271	40,703
Maxim Integrated Products, Inc.	4,054	144,687
Microchip Technology, Inc. (b)	638	32,385
QUALCOMM, Inc.	5,515	295,439
Texas Instruments, Inc.	1,521	95,291
		1,344,048
Software 1.0%		
Activision Blizzard, Inc.	5,383	213,328
ANSYS, Inc.*	724	65,703
CA, Inc.	6,685	219,468
Electronic Arts, Inc.*	3,326	251,978
Microsoft Corp.	6,974	356,860
Nexon Co., Ltd.	3,494	51,293
Nice Ltd.	1,927	120,944
Oracle Corp. (b)	6,201	253,807
Symantec Corp.	7,428	152,571
Synopsys, Inc.*	4,995	270,130
VMware, Inc. “A”* (b)	724	41,427
		1,997,509
Technology Hardware, Storage & Peripherals 0.9%		
Apple, Inc.	4,783	457,255
Canon, Inc.	6,474	183,427
EMC Corp. (b)	7,444	202,253
Hewlett Packard Enterprise Co.	16,233	296,577
HP, Inc.	12,754	160,063
NetApp, Inc.	2,389	58,746
Ricoh Co., Ltd.	24,547	211,774
Seiko Epson Corp.	7,900	125,582
Western Digital Corp.	1,810	85,541
		1,781,218

Materials 2.4%

	Shares	Value ($)
Chemicals 1.0%		
Ashland, Inc.	796	91,357
BASF SE	7	535
Celanese Corp. “A”	2,032	132,994
CF Industries Holdings, Inc.	1,180	28,438
Dow Chemical Co.	3,496	173,786
E.I. du Pont de Nemours & Co.	1,376	89,165
Ecolab, Inc.	362	42,933
GEO Specialty Chemicals, Inc.*	19,324	7,005
Hitachi Chemical Co., Ltd.	4,500	83,535
Israel Chemicals Ltd.	15,855	61,375
Kuraray Co., Ltd.	15,500	180,533
LyondellBasell Industries NV “A”	2,654	197,511
Mitsubishi Chemical Holdings Corp.	33,600	152,609
Mitsubishi Gas Chemical Co., Inc.	39,000	201,862
Monsanto Co.	941	97,309
Praxair, Inc.	507	56,982
Solvay SA	911	84,673
Sumitomo Chemical Co., Ltd.	38,000	155,193
		1,837,795
Construction Materials 0.0%		
Fletcher Building Ltd.	8,134	**49,982**
Containers & Packaging 0.1%		
International Paper Co.	2,655	112,519
WestRock Co.	404	15,703
		128,222
Metals & Mining 1.2%		
Alumina Ltd.	654,935	636,528
Goldcorp, Inc.	5,067	96,951
Mitsubishi Materials Corp.	17,804	42,364
Newcrest Mining Ltd.*	19,369	335,053
Newmont Mining Corp.	14,488	566,771

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

	Shares	Value ($)
Nucor Corp.	3,765	186,029
Randgold Resources Ltd.	2,087	234,124
Silver Wheaton Corp.	8,324	195,931
		2,293,751
Paper & Forest Products 0.1%		
Stora Enso Oyj "R"	14,033	112,410
UPM-Kymmene Oyj	5,018	91,571
		203,981

Telecommunication Services 4.9%

	Shares	Value ($)
Diversified Telecommunication Services 3.9%		
AT&T, Inc.	25,173	1,087,725
BCE, Inc.	6,804	321,991
BT Group PLC	53,563	295,589
CenturyLink, Inc. (b)	33,382	968,412
Deutsche Telekom AG (Registered)	9,913	168,756
Elisa Oyj	739	28,250
HKT Trust & HKT Ltd. "SS", (Units)	310,683	450,011
Level 3 Communications, Inc.*	3,326	171,256
Nippon Telegraph & Telephone Corp.	22,500	1,051,351
Orange SA (b)	10,258	167,505
PCCW Ltd.	369,183	248,133
Proximus SA	5,258	166,646
Singapore Telecommunications Ltd.	70,245	215,708
Spark New Zealand Ltd.	98,244	249,333
Swisscom AG (Registered)	560	277,953
TDC AS	8,628	42,280
Telecom Italia SpA (RSP)*	94,417	60,686
Telefonica Deutschland Holding AG	28,143	115,859
Telenor ASA	8,174	134,877
Telia Co. AB	57,607	271,683
Telstra Corp., Ltd.	61,196	255,063
TELUS Corp.	6,732	216,766
Verizon Communications, Inc.	10,071	562,365
		7,528,198
Wireless Telecommunication Services 1.0%		
KDDI Corp.	13,200	401,153
NTT DoCoMo, Inc.	14,969	403,461
Rogers Communications, Inc. "B"	6,007	243,172
StarHub Ltd.	103,900	293,343
T-Mobile U.S., Inc.*	8,314	359,747
Vodafone Group PLC	37,811	115,185
		1,816,061

Utilities 5.0%

	Shares	Value ($)
Electric Utilities 2.9%		
Alliant Energy Corp.	4,634	183,970
American Electric Power Co., Inc.	4,054	284,145
Cheung Kong Infrastructure Holdings Ltd.	11,556	99,528
CLP Holdings Ltd.	33,690	344,421
Duke Energy Corp.	4,995	428,521
Edison International	5,779	448,855
EDP — Energias de Portugal SA	49,404	151,463
Entergy Corp.	3,391	275,858
Eversource Energy	6,623	396,718
Exelon Corp.	5,268	191,544
FirstEnergy Corp.	4,098	143,061
HK Electric Investments & HK Electric Investments Ltd. "SS", 144A, (Units)	195,500	182,059
Iberdrola SA	13,596	92,091
NextEra Energy, Inc.	2,534	330,434
PG&E Corp.	6,225	397,902
Pinnacle West Capital Corp.	2,360	191,302
Power Assets Holdings Ltd.	15,243	140,270
PPL Corp.	5,646	213,136
Southern Co.	11,279	604,893
SSE PLC	7,261	151,360
Xcel Energy, Inc.	6,225	278,755
		5,530,286
Gas Utilities 0.1%		
AGL Resources, Inc.	2,679	176,734
Enagas SA	20	607
Snam SpA	17,853	106,495
		283,836
Independent Power & Renewable Eletricity Producers 0.1%		
Electric Power Development Co., Ltd.	2,402	55,670
Meridian Energy Ltd.	59,474	112,165
		167,835
Multi-Utilities 1.8%		
AGL Energy Ltd.	3,825	55,358
Ameren Corp.	5,501	294,744
CenterPoint Energy, Inc.	6,189	148,536
CMS Energy Corp.	2,461	112,862
Consolidated Edison, Inc.	3,982	320,312
Dominion Resources, Inc.	3,040	236,907
DTE Energy Co.	2,027	200,916
DUET Group (Units)	396,367	741,162
National Grid PLC	18,135	265,976
Public Service Enterprise Group, Inc.	5,284	246,287
SCANA Corp.	3,330	251,948
Sempra Energy	1,448	165,101
TECO Energy, Inc.	5,728	158,322
WEC Energy Group, Inc. (b)	3,571	233,186
		3,431,617
Water Utilities 0.1%		
American Water Works Co., Inc.	2,589	**218,796**
Total Common Stocks (Cost $98,253,030)		**110,708,624**

Preferred Stock 0.1%

Consumer Discretionary

	Shares	Value ($)
Bayerische Motoren Werke (BMW) AG (Cost $205,196)	2,730	**174,044**

Rights 0.0%

Consumer Staples

	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
Total Rights (Cost $7,977)		**7,977**

Warrants 0.0%

Materials

	Shares	Value ($)
Hercules Trust II, Expiration Date 3/31/2029* (Cost $30,283)	170	**431**

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

	Principal Amount ($)(c)	Value ($)
Corporate Bonds 7.1%		
Consumer Discretionary 0.4%		
21st Century Fox America, Inc., 3.7%, 10/15/2025	20,000	21,664
Charter Communications Operating LLC:		
144A, 3.579%, 7/23/2020	40,000	41,818
144A, 4.908%, 7/23/2025	30,000	32,799
Churchill Downs, Inc., 144A, 5.375%, 12/15/2021	28,000	28,595
CVS Health Corp., 5.125%, 7/20/2045	50,000	62,029
Discovery Communications LLC, 4.875%, 4/1/2043	30,000	27,064
General Motors Co., 6.6%, 4/1/2036	30,000	34,401
General Motors Financial Co., Inc.:		
2.4%, 5/9/2019	55,000	55,153
3.2%, 7/13/2020	100,000	101,307
3.2%, 7/6/2021 (d)	60,000	60,096
5.25%, 3/1/2026	30,000	32,613
Starbucks Corp., 2.45%, 6/15/2026	40,000	40,621
The Gap, Inc., 5.95%, 4/12/2021 (b)	160,000	166,875
Time Warner Cable, Inc., 7.3%, 7/1/2038	40,000	50,090
Walgreens Boots Alliance, Inc., 4.8%, 11/18/2044	40,000	43,032
		798,157
Consumer Staples 0.3%		
Altria Group, Inc., 9.95%, 11/10/2038	90,000	161,905
Anheuser-Busch InBev Finance, Inc., 4.9%, 2/1/2046	70,000	82,029
Kraft Heinz Foods Co., 144A, 4.375%, 6/1/2046	35,000	37,013
Minerva Luxembourg SA, 144A, 12.25%, 2/10/2022	250,000	270,000
Molson Coors Brewing Co.:		
3.0%, 7/15/2026 (d)	35,000	34,965
4.2%, 7/15/2046 (d)	40,000	40,171
PepsiCo, Inc., 4.45%, 4/14/2046	25,000	29,175
		655,258
Energy 0.7%		
Anadarko Petroleum Corp.:		
4.85%, 3/15/2021	15,000	15,909
5.55%, 3/15/2026 (b)	50,000	55,214
6.6%, 3/15/2046	21,000	25,358
ConocoPhillips Co.:		
4.15%, 11/15/2034	35,000	35,358
4.2%, 3/15/2021 (b)	20,000	21,655
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	350,000	362,250
Ensco PLC, 4.7%, 3/15/2021	40,000	33,237
Exxon Mobil Corp., 4.114%, 3/1/2046	35,000	39,474
Halliburton Co., 3.8%, 11/15/2025	145,000	151,445
Kinder Morgan Energy Partners LP, 6.375%, 3/1/2041	10,000	10,427
Noble Holding International Ltd., 5.0%, 3/16/2018	10,000	9,850
ONEOK Partners LP, 3.375%, 10/1/2022	15,000	14,676
Plains All American Pipeline LP, 2.85%, 1/31/2023	70,000	64,431

	Principal Amount ($)(c)	Value ($)
Reliance Industries Ltd., 144A, 4.125%, 1/28/2025	250,000	259,380
Schlumberger Holdings Corp., 144A, 4.0%, 12/21/2025	125,000	134,529
Shell International Finance BV, 4.0%, 5/10/2046	40,000	40,796
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	40,000	39,355
Williams Partners LP, 4.0%, 11/15/2021	80,000	78,030
		1,391,374
Financials 3.1%		
American Tower Corp., (REIT), 3.3%, 2/15/2021	45,000	46,944
Apollo Investment Corp., 5.25%, 3/3/2025	60,000	60,239
Ares Capital Corp., 3.875%, 1/15/2020	100,000	103,434
Banco Continental SAECA, 144A, 8.875%, 10/15/2017	200,000	203,000
Barclays Bank PLC, 144A, 6.05%, 12/4/2017	220,000	230,391
Barclays PLC, 4.375%, 1/12/2026	200,000	201,940
BBVA Bancomer SA, 144A, 6.008%, 5/17/2022	500,000	497,500
Blackstone Holdings Finance Co., LLC, 144A, 5.0%, 6/15/2044	20,000	21,696
Branch Banking & Trust Co., 1.45%, 5/10/2019	50,000	50,201
Capital One NA, 2.95%, 7/23/2021	250,000	256,903
CBL & Associates LP:		
(REIT), 4.6%, 10/15/2024 (b)	50,000	45,055
(REIT), 5.25%, 12/1/2023	70,000	66,412
Citigroup, Inc., 1.157%**, 5/1/2017	140,000	140,018
Corp. Financiera de Desarrollo SA, 144A, 4.75%, 2/8/2022	250,000	265,000
Crown Castle International Corp.:		
(REIT), 3.4%, 2/15/2021	35,000	36,538
(REIT), 3.7%, 6/15/2026	15,000	15,475
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	50,000	51,176
FS Investment Corp., 4.75%, 5/15/2022	70,000	71,358
GE Capital International Funding Co., Unlimited Co., 144A, 4.418%, 11/15/2035	200,000	224,317
Government Properties Income Trust, (REIT), 3.75%, 8/15/2019	50,000	51,288
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	80,000	85,975
HSBC Holdings PLC:		
3.9%, 5/25/2026	60,000	61,729
6.375%, 12/29/2049	200,000	190,500
Intesa Sanpaolo SpA, 2.375%, 1/13/2017	200,000	200,748
Jefferies Group LLC, 5.125%, 4/13/2018	70,000	73,217
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	30,000	30,315
Legg Mason, Inc., 5.625%, 1/15/2044	50,000	51,370
Loews Corp., 4.125%, 5/15/2043	40,000	40,895
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	190,000	211,811
Manulife Financial Corp.:		
4.9%, 9/17/2020	40,000	44,368
5.375%, 3/4/2046	55,000	64,271

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

	Principal Amount ($)(c)	Value ($)
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	10,000	9,557
Morgan Stanley, Series F, 5.625%, 9/23/2019	220,000	244,092
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	40,000	43,758
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	60,000	62,422
QBE Insurance Group Ltd., 144A, 2.4%, 5/1/2018	200,000	201,682
Santander Holdings U.S.A., Inc.:		
2.7%, 5/24/2019	90,000	90,433
4.5%, 7/17/2025	150,000	154,080
Santander UK PLC, 2.5%, 3/14/2019	70,000	70,714
Scentre Group Trust 1, 144A, (REIT), 3.5%, 2/12/2025	70,000	72,373
Select Income REIT, (REIT), 4.15%, 2/1/2022	60,000	60,281
Societe Generale SA, 144A, 2.625%, 9/16/2020	200,000	205,021
Standard Chartered PLC, 144A, 4.05%, 4/12/2026	200,000	200,973
Suncorp-Metway Ltd., 144A, 2.1%, 5/3/2019	30,000	30,331
Swiss Re Treasury U.S. Corp., 144A, 4.25%, 12/6/2042	30,000	31,692
The Goldman Sachs Group, Inc., 1.305%**, 6/4/2017	100,000	100,076
Trust F/1401, 144A, (REIT), 5.25%, 1/30/2026 (b)	355,000	361,212
Turkiye Garanti Bankasi AS, 144A, 4.75%, 10/17/2019	200,000	205,708
Voya Financial, Inc., 4.8%, 6/15/2046	45,000	44,954
		5,883,443
Health Care 0.5%		
AbbVie, Inc.:		
3.2%, 5/14/2026	45,000	45,584
3.6%, 5/14/2025	50,000	52,392
4.7%, 5/14/2045	60,000	63,453
Actavis Funding SCS, 4.75%, 3/15/2045	30,000	31,502
Actavis, Inc., 3.25%, 10/1/2022	70,000	71,518
Aetna, Inc.:		
2.8%, 6/15/2023	30,000	30,645
4.375%, 6/15/2046	40,000	41,540
Anthem, Inc., 3.3%, 1/15/2023	30,000	30,988
Celgene Corp., 3.875%, 8/15/2025 (b)	90,000	96,000
Express Scripts Holding Co.:		
3.4%, 3/1/2027 (d)	20,000	19,975
4.8%, 7/15/2046 (d)	25,000	24,967
Forest Laboratories LLC, 144A, 4.875%, 2/15/2021	80,000	88,794
Johnson & Johnson, 3.7%, 3/1/2046	60,000	67,560
Mylan NV:		
144A, 3.15%, 6/15/2021	50,000	50,717
144A, 5.25%, 6/15/2046	25,000	26,042
Stryker Corp.:		
3.375%, 11/1/2025	40,000	41,976
3.5%, 3/15/2026	20,000	21,218
4.625%, 3/15/2046	40,000	44,941
		849,812

		Principal Amount ($)(c)	Value ($)
Industrials 0.4%			
Cemex Finance LLC, 144A, 9.375%, 10/12/2022		200,000	220,000
FedEx Corp., 4.55%, 4/1/2046		30,000	32,553
Mersin Uluslararasi Liman Isletmeciligi AS, 144A, 5.875%, 8/12/2020		500,000	530,000
Molex Electronic Technologies LLC, 144A, 3.9%, 4/15/2025		30,000	30,617
Republic Services, Inc., 2.9%, 7/1/2026 (d)		20,000	20,283
			833,453
Information Technology 0.5%			
Apple, Inc., 3.45%, 2/9/2045		30,000	28,190
Diamond 1 Finance Corp.:			
144A, 4.42%, 6/15/2021		340,000	349,952
144A, 5.45%, 6/15/2023		30,000	31,127
144A, 8.1%, 7/15/2036		30,000	32,341
eBay, Inc., 3.8%, 3/9/2022		80,000	85,006
Fidelity National Information Services, Inc., 3.625%, 10/15/2020		70,000	73,998
Hewlett Packard Enterprise Co.:			
144A, 3.6%, 10/15/2020		40,000	41,751
144A, 4.9%, 10/15/2025		60,000	62,689
KLA-Tencor Corp., 4.65%, 11/1/2024		20,000	21,818
Lam Research Corp., 3.9%, 6/15/2026		25,000	26,320
Oracle Corp., 2.65%, 7/15/2026 (d)		70,000	70,176
Seagate HDD Cayman, 5.75%, 12/1/2034		50,000	35,125
			858,493
Materials 0.3%			
Glencore Funding LLC, 144A, 4.625%, 4/29/2024 (b)		20,000	18,700
Novolipetsk Steel, 144A, 4.5%, 6/15/2023		200,000	197,500
Rio Tinto Finance U.S.A. Ltd., 3.75%, 6/15/2025 (b)		40,000	41,845
Yamana Gold, Inc., 4.95%, 7/15/2024		250,000	245,950
			503,995
Telecommunication Services 0.9%			
America Movil SAB de CV, 7.125%, 12/9/2024	MXN	2,000,000	106,473
AT&T, Inc.:			
3.4%, 5/15/2025		160,000	163,665
3.8%, 3/15/2022		30,000	31,870
4.125%, 2/17/2026		45,000	48,341
4.35%, 6/15/2045		30,000	29,069
5.65%, 2/15/2047		40,000	45,808
Bharti Airtel International Netherlands BV, 144A, 5.35%, 5/20/2024		1,000,000	1,105,186
Verizon Communications, Inc.:			
3.5%, 11/1/2024 (b)		60,000	63,812
4.672%, 3/15/2055		60,000	60,686
			1,654,910
Utilities 0.0%			
Southern Co., 3.25%, 7/1/2026		70,000	**72,711**
Total Corporate Bonds (Cost $13,148,967)			**13,501,606**

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

	Principal Amount ($)(c)	Value ($)
Asset-Backed 0.5%		
Miscellaneous		
ARES CLO Ltd., "D", Series 2012-3A, 144A, 5.27%**, 1/17/2024	250,000	241,959
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	281,396	275,922
PennyMac LLC, "A1", Series 2015-NPL1, 144A, 4.0%, 3/25/2055	404,416	402,582
Total Asset-Backed (Cost $925,898)		**920,463**

Mortgage-Backed Securities Pass-Throughs 1.0%

	Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp., 6.0%, 3/1/2038	5,865	6,692
Federal National Mortgage Association:		
3.5%, 3/1/2046	1,777,260	1,846,324
4.5%, 9/1/2035	14,628	15,980
6.0%, 1/1/2024	19,881	22,702
6.5%, 5/1/2017	1,935	1,952
Total Mortgage-Backed Securities Pass-Throughs (Cost $1,883,091)		**1,893,650**

Commercial Mortgage-Backed Securities 1.0%

	Principal Amount ($)(c)	Value ($)
Credit Suisse First Boston Mortgage Securities Corp., "G", Series 2005-C6, 144A, 5.23%**, 12/15/2040	250,000	248,842
CSAIL Commercial Mortgage Trust, "A4", Series 2015-C4, 3.808%, 11/15/2048	300,000	330,255
FHLMC Multifamily Structured Pass-Through Certificates, "X1", Series K043, Interest Only, 0.677%**, 12/25/2024	4,982,886	196,828
GMAC Commercial Mortgage Securities, Inc., "G", Series 2004-C1, 144A, 5.455%, 3/10/2038	502,681	494,094
JPMBB Commercial Mortgage Securities Trust:		
"A4", Series 2015-C28, 3.227%, 10/15/2048	450,000	475,162
"A3", Series 2014-C19, 3.669%, 4/15/2047	125,000	134,475
Total Commercial Mortgage-Backed Securities (Cost $1,840,115)		**1,879,656**

Collateralized Mortgage Obligations 1.8%

	Principal Amount ($)(c)	Value ($)
Fannie Mae Connecticut Avenue Securities, "1M1", Series 2016-C02, 2.596%**, 9/25/2028	618,584	625,916
Federal Home Loan Mortgage Corp.:		
"HI", Series 3979, Interest Only, 3.0%, 12/15/2026	408,590	34,140
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	519,553	48,444
"LI", Series 3720, Interest Only, 4.5%, 9/15/2025	788,260	86,534
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	414,657	29,392
"C31", Series 303, Interest Only, 4.5%, 12/15/2042	1,646,212	317,545
"SP", Series 4047, Interest Only, 6.208%***, 12/15/2037	442,154	52,728
"H", Series 2278, 6.5%, 1/15/2031	130	136
Federal National Mortgage Association:		
"WO", Series 2013-27, Principal Only, Zero Coupon, 12/25/2042	220,000	166,848
"4", Series 406, Interest Only, 4.0%, 9/25/2040	148,339	21,666
"KZ", Series 2010-134, 4.5%, 12/25/2040	395,588	431,590
"I", Series 2003-84, Interest Only, 6.0%, 9/25/2033	168,057	32,028
"PI", Series 2006-20, Interest Only, 6.227%***, 11/25/2030	289,930	42,884
Government National Mortgage Association:		
"QI", Series 2011-112, Interest Only, 4.0%, 5/16/2026	349,474	33,723
"GC", Series 2010-101, 4.0%, 8/20/2040	500,000	569,117
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	453,037	43,872
"NI", Series 2011-80, Interest Only, 4.5%, 5/16/2038	334,799	10,024
"BI", Series 2010-30, Interest Only, 4.5%, 7/20/2039	68,534	5,590
"ND", Series 2010-130, 4.5%, 8/16/2039	600,000	668,687
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	109,768	13,010
"IP", Series 2014-11, Interest Only, 4.5%, 1/20/2043	302,443	33,536
"IQ", Series 2011-18, Interest Only, 5.5%, 1/16/2039	147,846	13,486
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	306,365	48,755
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	315,619	47,641
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	240,149	35,979
"AI", Series 2007-38, Interest Only, 6.018%***, 6/16/2037	56,148	8,850
Total Collateralized Mortgage Obligations (Cost $3,226,065)		**3,422,121**

Government & Agency Obligations 16.4%

		Principal Amount ($)(c)	Value ($)
Other Government Related (e) 0.1%			
Perusahaan Penerbit SBSN, 144A, 4.325%, 5/28/2025		200,000	**206,500**
Sovereign Bonds 2.4%			
Dominican Republic, 144A, 6.875%, 1/29/2026		100,000	110,350
Government of Indonesia, Series FR56, 8.375%, 9/15/2026	IDR	1,340,000,000	107,584
Republic of Angola, 144A, 9.5%, 11/12/2025		450,000	445,590
Republic of Hungary, Series 19/A, 6.5%, 6/24/2019	HUF	16,900,000	67,434
Republic of Namibia, 144A, 5.25%, 10/29/2025		250,000	254,700
Republic of Panama, 3.875%, 3/17/2028		200,000	211,500

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

		Principal Amount ($)(c)	Value ($)
Republic of Slovenia, 144A, 5.5%, 10/26/2022		200,000	227,060
Republic of Sri Lanka:			
144A, 5.125%, 4/11/2019		200,000	200,293
144A, 6.85%, 11/3/2025		280,000	272,750
Republic of Uruguay, 5.1%, 6/18/2050		40,000	39,800
United Mexican States:			
4.6%, 1/23/2046		500,000	527,500
Series M 10, 8.5%, 12/13/2018	MXN	35,000,000	2,068,497
			4,533,058
U.S. Government Sponsored Agency 0.5%			
Tennessee Valley Authority, 4.25%, 9/15/2065		778,000	**913,034**
U.S. Treasury Obligations 13.4%			
U.S. Treasury Bills:			
0.345%****, 8/11/2016 (f)		658,000	657,847
0.44%****, 12/1/2016 (f)		156,000	155,811
U.S. Treasury Bonds:			
2.5%, 2/15/2046		45,000	46,858
3.0%, 11/15/2045		15,000	17,248
3.125%, 8/15/2044		102,000	120,065
3.625%, 2/15/2044		176,000	226,930
5.375%, 2/15/2031		571,000	846,887
U.S. Treasury Notes:			
0.75%, 4/30/2018		14,000,000	14,040,474
1.0%, 8/31/2016 (g) (h)		3,749,000	3,753,341
1.0%, 9/30/2016		500,000	500,806
1.25%, 1/31/2020		180,000	182,630
1.375%, 4/30/2021		85,000	86,467
1.625%, 2/15/2026		4,875,000	4,929,844
1.625%, 5/15/2026		100,000	101,223
			25,666,431
Total Government & Agency Obligations (Cost $31,104,150)			**31,319,023**

Municipal Bonds and Notes 0.1%

	Principal Amount ($)(c)	Value ($)
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (Cost $142,644)	142,644	**146,000**

Convertible Bond 0.1%

Materials

	Principal Amount ($)(c)	Value ($)
GEO Specialty Chemicals, Inc., 144A, 7.5% Cash, 7.5% PIK, 10/30/2018 (Cost $218,492)	221,457	**223,618**

Preferred Security 0.0%

Materials

	Principal Amount ($)(c)	Value ($)
Hercules, Inc., 6.5%, 6/30/2029 (Cost $21,292)	40,000	**32,900**

Exchange-Traded Funds 11.7%

	Shares	Value ($)
iShares iBoxx $ High Yield Corporate Bond ETF	45,000	3,811,050
SPDR Barclays Capital High Yield Bond ETF	235,800	8,418,060
SPDR Dow Jones REIT ETF	102,400	10,181,631
Total Exchange-Traded Funds (Cost $20,714,528)		**22,410,741**

Securities Lending Collateral 2.8%

	Shares	Value ($)
Daily Assets Fund "Capital Shares", 0.51% (i) (j) (Cost $5,399,678)	5,399,678	**5,399,678**

Cash Equivalents 2.3%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 0.44% (i) (Cost $4,336,180)	4,336,180	**4,336,180**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $181,457,586)†	102.8	**196,376,712**
Other Assets and Liabilities, Net	(2.8)	**(5,289,694)**
Net Assets	100.0	**191,087,018**

* 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, 2016.

*** These securities are shown at their current rate as of June 30, 2016.

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

† The cost for federal income tax purposes was $181,976,674. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $14,400,038. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $21,006,942 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,606,904.

(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	1,385	.00

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

(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, 2016 amounted to $5,295,426, which is 2.8% of net assets.

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

(d) When-issued security.

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

(f) At June 30, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(g) At June 30, 2016, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(h) At June 30, 2016, 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

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.

REIT: Real Estate Investment Trust

RSP: Risparmio (Convertible Savings Shares)

SBSN: Surat Berharga Syariah Negara (Islamic Based Government Securities)

SPDR: Standard & Poor's Depositary Receipt

At June 30, 2016, open futures contracts purchased were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized Appreciation ($)**
10 Year U.S. Treasury Note	USD	9/21/2016	66	8,776,969	17,392
Ultra Long U.S. Treasury Bond	USD	9/21/2016	73	13,605,375	601,820
Total unrealized appreciation					**619,212**

At June 30, 2016, 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)**
Put Options Pay Fixed — 2.0% – Receive Floating — 3-Month LIBOR	8/15/2016 8/15/2046	3,400,000[1]	8/11/2016	65,280	(157,044)
Pay Fixed — 2.22% – Receive Floating — 3-Month LIBOR	7/13/2016 7/13/2046	3,400,000[2]	7/11/2016	63,920	(301,970)
Total				**129,200**	**(459,014)**

(k) Unrealized depreciation on written options on interest rate swap contracts at June 30, 2016 was $329,814.

At June 30, 2016, open credit default swap contracts sold were as follows:

Centrally Cleared Swaps

Expiration Date	**Notional Amount ($)(l)**	**Currency**	**Fixed Cash Flows Received**	**Underlying Reference Obligation**	**Value ($)**	**Unrealized Appreciation ($)**
6/20/2021	2,400,000	EUR	5.0%	Markit iTraxx Europe Crossover Index Series 25 Version 1	174,904	**55,682**

(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.

At June 30, 2016, 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) ($)**
5/9/2016 5/9/2026	2,100,000	Fixed — 2.48%	Floating — 3-Month LIBOR	(226,859)	(203,629)
12/16/2015 9/16/2020	17,900,000	Floating — 3-Month LIBOR	Fixed — 2.214%	1,077,145	1,084,177
12/16/2015 9/17/2035	400,000	Fixed — 2.938%	Floating — 3-Month LIBOR	(86,951)	(79,170)

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) ($)
12/4/2015 12/4/2045	4,900,000	Fixed — 2.615%	Floating — 3-Month LIBOR	(933,812)	(829,520)
Total net unrealized depreciation					**(28,142)**

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at June 30, 2016 is 0.65%.

Counterparties:

1 Nomura International PLC

2 Citigroup, Inc.

As of June 30, 2016, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	526,316	BRL	2,000,000	7/8/2016	95,731	Macquarie Bank Ltd.
EUR	3,055,000	USD	3,445,673	8/2/2016	51,921	Barclays Bank PLC
MXN	41,366,000	USD	2,337,793	8/5/2016	81,701	Citigroup, Inc.
USD	615,136	ZAR	9,720,000	8/5/2016	40,710	Morgan Stanley
ZAR	9,720,000	USD	660,688	8/5/2016	4,842	JPMorgan Chase Securities, Inc.
USD	1,408,672	BRL	5,200,000	8/22/2016	186,577	BNP Paribas
AUD	900,000	USD	670,743	8/23/2016	719	Australia & New Zealand Banking Group Ltd.
USD	733,550	AUD	1,000,000	8/23/2016	10,922	Australia & New Zealand Banking Group Ltd.
AUD	1,000,000	USD	756,380	8/23/2016	11,908	Australia & New Zealand Banking Group Ltd.
USD	13,613,790	JPY	1,420,000,000	9/21/2016	173,346	Canadian Imperial Bank of Commerce
USD	790,957	ZAR	12,000,000	9/27/2016	10,120	BNP Paribas
ZAR	12,000,000	USD	815,576	9/27/2016	14,499	BNP Paribas
USD	3,073,108	EUR	2,764,531	9/28/2016	4,398	Canadian Imperial Bank of Commerce
USD	477,941	EUR	430,000	9/28/2016	740	Danske Bank AS
Total unrealized appreciation					**688,134**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
BRL	2,000,000	USD	554,017	7/8/2016	(68,030)	Macquarie Bank Ltd.
USD	3,533,825	EUR	3,055,000	8/2/2016	(140,073)	UBS AG
BRL	5,200,000	USD	1,424,061	8/22/2016	(171,188)	BNP Paribas
AUD	2,000,000	USD	1,482,910	8/23/2016	(6,033)	Macquarie Bank Ltd.
JPY	1,420,000,000	USD	13,661,991	9/21/2016	(125,145)	Canadian Imperial Bank of Commerce
USD	14,338,993	JPY	1,461,000,000	9/26/2016	(150,520)	Bank of America
JPY	730,500,000	USD	6,916,860	9/26/2016	(177,376)	Barclays Bank PLC
JPY	730,500,000	USD	6,914,994	9/26/2016	(179,242)	Canadian Imperial Bank of Commerce
EUR	1,430,000	USD	1,577,934	9/27/2016	(13,893)	Nomura International PLC
EUR	6,389,062	USD	7,091,507	9/28/2016	(20,866)	Barclays Bank PLC
USD	3,556,471	EUR	3,194,531	9/28/2016	(285)	Citigroup, Inc.
TWD	23,400,000	USD	720,419	11/30/2016	(7,262)	Nomura International PLC
TWD	23,400,000	USD	727,559	12/22/2016	(446)	Nomura International PLC
TWD	23,400,000	USD	721,109	12/29/2016	(6,999)	Nomura International PLC
Total unrealized depreciation					**(1,067,358)**	

Currency Abbreviations

AUD	Australian Dollar	JPY	Japanese Yen
BRL	Brazilian Real	MXN	Mexican Peso
EUR	Euro	TWD	Taiwan Dollar
HUF	Hungarian Forint	USD	United States Dollar
IDR	Indonesian Rupiah	ZAR	South African Rand

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, 2016 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 (m)				
Consumer Discretionary	$ 6,852,923	$ 3,827,081	$ 1,385	$ 10,681,389
Consumer Staples	9,980,838	5,609,767	—	15,590,605
Energy	3,826,831	2,041,140	—	5,867,971
Financials	12,549,098	11,639,823	—	24,188,921
Health Care	7,128,004	2,244,032	—	9,372,036
Industrials	4,730,274	6,467,396	—	11,197,670
Information Technology	9,051,120	1,268,552	—	10,319,672
Materials	2,084,379	2,422,347	7,005	4,513,731
Telecommunication Services	3,931,434	5,412,825	—	9,344,259
Utilities	7,133,745	2,498,625	—	9,632,370
Preferred Stock	—	174,044	—	174,044
Rights	—	—	7,977	7,977
Warrants	—	—	431	431
Fixed Income Investments (m)				
Corporate Bonds	—	13,501,606	—	13,501,606
Asset-Backed	—	920,463	—	920,463
Mortgage-Backed Securities Pass-Throughs	—	1,893,650	—	1,893,650
Commercial Mortgage-Backed Securities	—	1,879,656	—	1,879,656
Collateralized Mortgage Obligations	—	3,422,121	—	3,422,121
Government & Agency Obligations	—	31,319,023	—	31,319,023
Municipal Bonds and Notes	—	146,000	—	146,000
Convertible Bond	—	—	223,618	223,618
Preferred Security	—	32,900	—	32,900
Exchange-Traded Funds	22,410,741	—	—	22,410,741
Short-Term Investments (m)	9,735,858	—	—	9,735,858
Derivatives (n)				
Futures Contracts	619,212	—	—	619,212
Credit Default Swap Contracts	—	55,682	—	55,682
Interest Rate Swap Contracts	—	1,084,177	—	1,084,177
Forward Foreign Currency Exchange Contracts	—	688,134	—	688,134
Total	**$100,034,457**	**$ 98,549,044**	**$ 240,416**	**$198,823,917**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (n)				
Written Options	$ —	$ (459,014)	$ —	$ (459,014)
Interest Rate Swap Contracts	—	(1,112,319)	—	(1,112,319)
Forward Foreign Currency Exchange Contracts	—	(1,067,358)	—	(1,067,358)
Total	**$ —**	**$ (2,638,691)**	**$ —**	**$ (2,638,691)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(m) See Investment Portfolio for additional detailed categorizations.

(n) 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, 2016 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $171,721,728) — including $5,295,426 of securities loaned	$ 186,640,854
Investment in Daily Assets Fund (cost $5,399,678)*	5,399,678
Investments in Deutsche Central Cash Management Government Fund (cost $4,336,180)	4,336,180
Total investments in securities, at value (cost $181,457,586)	196,376,712
Cash	224,461
Foreign currency, at value (cost $654,014)	658,100
Receivable for investments sold	301,877
Receivable for Fund shares sold	24,067
Dividends receivable	227,028
Interest receivable	337,248
Receivable for variation margin on centrally cleared swaps	103,384
Unrealized appreciation on forward foreign currency exchange contracts	688,134
Foreign taxes recoverable	83,247
Other assets	1,684
Total assets	199,025,942
Liabilities	
Payable upon return of securities loaned	5,399,678
Payable for investments purchased	342,094
Payable for investments purchased — when-issued securities	269,221
Payable for Fund shares redeemed	34,861
Payable for variation margin on futures contracts	74,240
Options written, at value (premium received $129,200)	459,014
Unrealized depreciation on forward foreign currency exchange contracts	1,067,358
Accrued management fee	57,863
Accrued Trustees' fees	1,774
Other accrued expenses and payables	232,821
Total liabilities	7,938,924
Net assets, at value	**$ 191,087,018**
Net Assets Consist of	
Undistributed net investment income	2,056,660
Net unrealized appreciation (depreciation) on:	
Investments	14,919,126
Swap contracts	27,540
Futures	619,212
Foreign currency	(380,683)
Written options	(329,814)
Accumulated net realized gain (loss)	(11,979,647)
Paid-in capital	186,154,624
Net assets, at value	**$ 191,087,018**
Class A	
Net Asset Value, offering and redemption price per share $191,087,018 ÷ 8,414,784 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 22.71**

* 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, 2016 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $139,517)	$ 2,480,010
Interest (net of foreign taxes withheld of $176)	773,530
Income distributions — Deutsche Central Cash Management Government Fund	29,439
Securities lending income, including income from Daily Assets Fund, net of borrower rebates	20,694
Total income	3,303,673
Expenses:	
Management fee	351,189
Administration fee	94,916
Services to shareholders	743
Custodian fee	37,982
Professional fees	49,084
Reports to shareholders	30,912
Trustees' fees and expenses	5,600
Pricing service fee	31,640
Other	7,989
Total expenses	610,055
Net investment income	**2,693,618**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(5,681,980)
Swap contracts	(194,981)
Futures	201,670
Written options	107,625
Foreign currency	17,431
	(5,550,235)
Change in net unrealized appreciation (depreciation) on:	
Investments	9,766,846
Swap contracts	(452,650)
Futures	555,814
Written options	(432,287)
Foreign currency	(835,711)
	8,602,012
Net gain (loss)	**3,051,777**
Net increase (decrease) in net assets resulting from operations	**$ 5,745,395**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income	$ 2,693,618	$ 6,650,199
Net realized gain (loss)	(5,550,235)	(5,329,330)
Change in net unrealized appreciation (depreciation)	8,602,012	(4,092,770)
Net increase (decrease) in net assets resulting from operations	5,745,395	(2,771,901)
Distributions to shareholders from:		
Net investment income: Class A	(7,851,269)	(7,355,308)
Net realized gains: Class A	—	(6,214,133)
Total distributions	(7,851,269)	(13,569,441)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,153,265	5,276,855
Shares issued to shareholders in reinvestment of distributions	7,851,269	13,569,441
Payments for shares redeemed	(17,408,522)	(48,078,303)
Net increase (decrease) in net assets from Class A share transactions	(8,403,988)	(29,232,007)
Increase (decrease) in net assets	(10,509,862)	(45,573,349)
Net assets at beginning of period	201,596,880	247,170,229
Net assets at end of period (including undistributed net investment income of $2,056,660 and $7,214,311, respectively)	**$ 191,087,018**	**$ 201,596,880**

Other Information		
Class A		
Shares outstanding at beginning of period	8,792,358	10,040,081
Shares sold	51,064	219,508
Shares issued to shareholders in reinvestment of distributions	348,017	562,580
Shares redeemed	(776,655)	(2,029,811)
Net increase (decrease) in Class A shares	(377,574)	(1,247,723)
Shares outstanding at end of period	8,414,784	8,792,358

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$22.93**	**$24.62**	**$27.30**	**$23.90**	**$21.49**	**$22.13**
Income (loss) from investment operations:						
Net investment income[a]	.32	.68	.72	.78	.57	.46
Net realized and unrealized gain (loss)	.41	(.97)	.25	3.14	2.20	(.75)
Total from investment operations	.73	(.29)	.97	3.92	2.77	(.29)
Less distributions from:						
Net investment income	(.95)	(.76)	(.85)	(.52)	(.36)	(.35)
Net realized gains	—	(.64)	(2.80)	—	—	—
Total distributions	(.95)	(1.40)	(3.65)	(.52)	(.36)	(.35)
Net asset value, end of period	**$22.71**	**$22.93**	**$24.62**	**$27.30**	**$23.90**	**$21.49**
Total Return (%)	3.22**	(1.44)[b]	3.83	16.63	12.98	(1.42)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	191	202	247	269	260	264
Ratio of expenses before expense reductions (%)	.64*	.60	.62	.60	.59	.58
Ratio of expenses after expense reductions (%)	.64*	.58	.62	.60	.59	.58
Ratio of net investment income (loss) (%)	2.84*	2.85	2.83	3.07	2.48	2.09
Portfolio turnover rate (%)	75**	92	88	182	188	109

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 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 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. 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. The 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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock and corporate bonds in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end.

Remaining Contractual Maturity of the Agreements As of June 30, 2016

	Overnight and Continuous	<30 days	Between 30 & 90 days	>90 days	Total
Securities Lending Transactions					
Common Stocks	$ 4,496,079	$ —	$ —	$ —	$ 4,496,079
Corporate Bonds	903,599	—	—	—	903,599
Total Borrowings	**$ 5,399,678**	**$ —**	**$ —**	**$ —**	**$ 5,399,678**
Gross amount of recognized liabilities for securities lending transactions					**$ 5,399,678**

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, a portion of which may be recoverable based upon the current interpretation of the tax rules and regulations. Estimated tax liabilities and recoveries 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, 2015, the Fund had $5,928,000 of tax basis capital loss carryforwards, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($4,404,000) and long-term losses ($1,524,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $23,200,000 to $25,300,000.

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, 2016, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics or to hedge the risk of default or other specified credit events on portfolio assets.

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, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to approximately $11,721,000, and the investment on the credit default swap contracts sold had a total notional value of generally indicative of a range from $0 to approximately $2,400,000.

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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $14,228,000 to $22,382,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $20,120,000.

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, 2016, 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, 2016, the investment in written option contracts had a total value generally indicative of a range from approximately $134,000 to $459,000.

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, 2016, 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 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, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $5,584,000 to $50,480,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $1,067,000 to $42,669,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $0 to approximately $1,251,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2016 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)	$ —	$ 1,084,177	$ 619,212	$ 1,703,389
Credit Contracts (a)	—	55,682	—	55,682
Foreign Exchange Contracts (b)	688,134	—	—	688,134
	$ 688,134	**$ 1,139,859**	**$ 619,212**	**$ 2,447,205**

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 forward foreign currency exchange contracts

Liability Derivatives	Written Options	Forward Contracts	Swap Contracts	Total
Interest Rate Contracts (a) (b)	$ (459,014)	$ —	$ (1,112,319)	$ (1,571,333)
Foreign Exchange Contracts (c)	—	(1,067,358)	—	(1,067,358)
	$ (459,014)	**$ (1,067,358)**	**$ (1,112,319)**	**$ (2,638,691)**

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

(a) Includes cumulative depreciation of 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, 2016 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)	$ 107,625	$ —	$ (151,441)	$ 201,670	$ 157,854
Credit Contracts (a)	—	—	(43,540)	—	(43,540)
Foreign Exchange Contracts (b)	—	136,807	—	—	136,807
	$ 107,625	**$ 136,807**	**$ (194,981)**	**$ 201,670**	**$ 251,121**

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)	$ (432,287)	$ —	$ (560,072)	$ 555,814	$ (436,545)
Credit Contracts (a)	—	—	107,422	—	107,422
Foreign Exchange Contracts (b)	—	(844,274)	—	—	(844,274)
	$ (432,287)	**$ (844,274)**	**$ (452,650)**	**$ 555,814**	**$ (1,173,397)**

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, 2016, 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.	$ 23,549	$ —	$ —	$ —	$ 23,549
Barclays Bank PLC	51,921	(51,921)	—	—	—
BNP Paribas	211,196	(171,188)	—	—	40,008
Canadian Imperial Bank of Commerce	177,744	(177,744)	—	—	—
Citigroup, Inc	81,701	(81,701)	—	—	—
Danske Bank AS	740	—	—	—	740
JPMorgan Chase Securities, Inc.	4,842	—	—	—	4,842
Macquarie Bank Ltd.	95,731	(74,063)	—	—	21,668
Morgan Stanley	40,710	—	—	—	40,710
	$ 688,134	**$ (556,617)**	**$ —**	**$ —**	**$ 131,517**

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	$ 150,520	$ —	$ —	$ —	$ 150,520
Barclays Bank PLC	198,242	(51,921)	—	—	146,321
BNP Paribas	171,188	(171,188)	—	—	—
Canadian Imperial Bank of Commerce	304,387	(177,744)	—	—	126,643
Citigroup, Inc	302,255	(81,701)	—	(135,156)	85,398
Macquarie Bank Ltd.	74,063	(74,063)	—	—	—
Nomura International PLC	185,644	—	—	(55,064)	130,580
UBS AG	140,073	—	—	—	140,073
	$ 1,526,372	**$ (556,617)**	**$ —**	**$ (190,220)**	**$ 779,535**

(a) The actual collateral pledged may be more than the amount shown.

C. Purchases and Sales of Securities

During the six months ended June 30, 2016, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $100,252,977 and $127,182,060, respectively. Purchases and sales of U.S. Treasury obligations aggregated $31,416,175 and $12,666,977, respectively.

For the six months ended June 30, 2016, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premium
Outstanding, beginning of period	19,400,000	$ 236,826
Options closed	(2,100,000)	(23,573)
Options expired	(10,500,000)	(84,053)
Outstanding, end of period	**6,800,000**	**$ 129,200**

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, 2016, 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, 2016 through September 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 0.73%.

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, 2016, the Administration Fee was $94,916, of which $15,639 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $197, 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $9,002, of which $8,642 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,818.

E. Ownership of the Fund

At June 30, 2016, two participating insurance companies were owners of record of 10% or more of the total outstanding shares of the Fund, each owning 58% and 21%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if 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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	Class A
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$1,032.20
Expenses Paid per $1,000*	$ 3.23

Hypothetical 5% Fund Return	Class A
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$1,021.68
Expenses Paid per $1,000*	$ 3.22

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

Annualized Expense Ratio	Class A
Deutsche Variable Series II — Deutsche Global Income Builder VIP	.64%

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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 3rd quartile, 1st quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the three- and five-year periods and has underperformed its benchmark in the one-year period ended December 31, 2014.

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, 2014). 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, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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

Notes

Deutsche
Asset Management

VS2GIB-3 (R-028382-5 8/16)

Deutsche
Asset Management

June 30, 2016

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 and less liquid 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.

Deutsche Asset Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

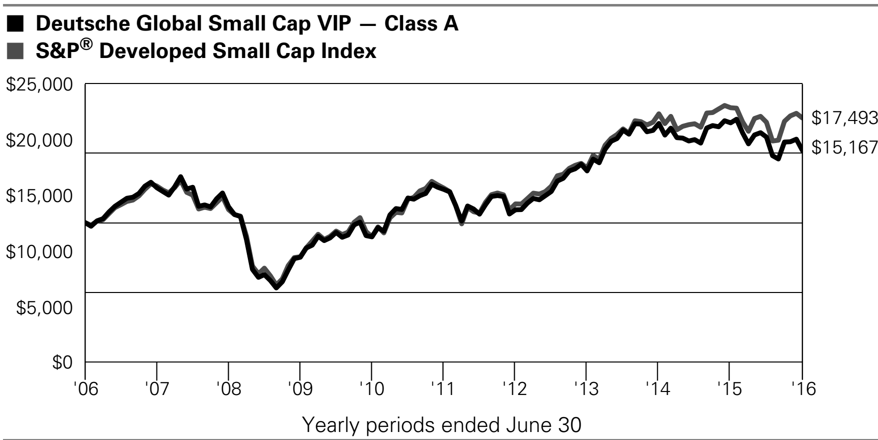
Performance Summary

June 30, 2016 (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, 2016 are 1.12% 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	$9,406	$8,849	$11,074	$12,257	$15,167
	Average annual total return	–5.94%	–11.51%	3.46%	4.15%	4.25%
S&P Developed Small Cap Index	Growth of $10,000	$10,175	$9,598	$12,581	$14,025	$17,493
	Average annual total return	1.75%	–4.02%	7.95%	7.00%	5.75%

Deutsche Global Small Cap VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,390	$8,827	$10,984	$12,098	$14,736
	Average annual total return	–6.10%	–11.73%	3.18%	3.88%	3.95%
S&P Developed Small Cap Index	Growth of $10,000	$10,175	$9,598	$12,581	$14,025	$17,493
	Average annual total return	1.75%	–4.02%	7.95%	7.00%	5.75%

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)	**6/30/16**	**12/31/15**
Common Stocks	96%	98%
Cash Equivalents	4%	2%
Convertible Preferred Stock	0%	0%
Warrant	0%	0%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/16**	**12/31/15**
United States	47%	42%
Japan	11%	10%
United Kingdom	9%	13%
Germany	6%	7%
France	5%	4%
Ireland	4%	5%
Malaysia	2%	2%
Netherlands	2%	3%
Canada	2%	2%
Hong Kong	2%	2%
Other	10%	10%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/16**	**12/31/15**
Consumer Discretionary	23%	26%
Industrials	22%	22%
Information Technology	16%	15%
Financials	13%	13%
Health Care	13%	13%
Consumer Staples	7%	7%
Energy	3%	3%
Materials	3%	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

	Shares	Value ($)
Common Stocks 95.7%		
Australia 1.0%		
Austal Ltd.	498,109	453,625
G8 Education Ltd.	160,137	456,092
(Cost $992,104)		**909,717**
Bermuda 0.7%		
Lazard Ltd. "A" (a) (Cost $525,240)	21,749	**647,685**
Canada 1.6%		
Quebecor, Inc. "B"	36,981	1,059,667
SunOpta, Inc.*	97,854	410,008
(Cost $1,458,290)		**1,469,675**
China 0.9%		
Minth Group Ltd. (Cost $79,835)	243,036	**791,394**
Finland 1.2%		
Cramo Oyj (Cost $1,098,468)	51,413	**1,058,843**
France 4.5%		
Altran Technologies SA	72,704	966,329
Elior Participations SCA 144A	44,016	960,631
Flamel Technologies SA (ADR)*	111,794	1,200,668
JC Decaux SA	16,702	564,516
Parrot SA*	21,880	306,329
(Cost $3,922,876)		**3,998,473**
Germany 5.4%		
M.A.X. Automation AG	98,919	639,442
PATRIZIA Immobilien AG*	48,197	1,156,750
Rational AG	1,517	702,443
United Internet AG (Registered)	40,249	1,666,241
VIB Vermoegen AG	29,410	633,609
(Cost $1,688,512)		**4,798,485**
Hong Kong 1.6%		
Techtronic Industries Co., Ltd. (Cost $431,361)	349,041	**1,459,898**
India 0.8%		
WNS Holdings Ltd. (ADR)* (Cost $758,586)	26,221	**707,967**
Indonesia 0.5%		
PT Arwana Citramulia Tbk (Cost $681,349)	10,270,909	**474,368**
Ireland 3.3%		
Greencore Group PLC	244,921	1,003,053
Paddy Power Betfair PLC	10,340	1,084,370
Ryanair Holdings PLC	71,729	901,086
(Cost $1,416,167)		**2,988,509**
Israel 0.6%		
Mellanox Technologies Ltd.* (a) (Cost $461,091)	10,900	**522,764**
Italy 1.1%		
Prysmian SpA (Cost $867,904)	47,087	**1,030,116**
Japan 10.7%		
Ai Holdings Corp.	37,317	868,900
Anicom Holdings, Inc.	18,900	529,170
Daikyonishikawa Corp.	30,900	385,708
Kusuri No Aoki Co., Ltd.	19,058	1,237,329
MISUMI Group, Inc.	58,874	1,054,208
Nippon Seiki Co., Ltd.	47,964	779,018
Optex Co., Ltd.	24,200	620,538
Syuppin Co., Ltd. (b)	69,300	851,811
Topcon Corp.	38,300	375,541
United Arrows Ltd.	24,557	710,273
Universal Entertainment Corp.* (b)	37,014	777,949
UT Group Co., Ltd.* (b)	103,924	421,095
Zenkoku Hosho Co., Ltd.	25,500	922,649
(Cost $6,847,498)		**9,534,189**
Korea 0.7%		
i-SENS, Inc.* (Cost $603,693)	19,340	**616,207**
Malaysia 1.9%		
Hartalega Holdings Bhd.	227,046	244,238
Nirvana Asia Ltd. 144A	2,775,512	886,354
Tune Protect Group Bhd.	1,558,914	569,710
(Cost $1,825,816)		**1,700,302**
Netherlands 1.8%		
Brunel International NV (b)	26,615	489,833
Core Laboratories NV (b) (c)	5,697	705,801
SBM Offshore NV	35,297	412,337
(Cost $1,387,047)		**1,607,971**
Panama 0.8%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $675,898)	28,411	**752,891**
Spain 0.7%		
Telepizza Group SA 144A* (Cost $748,214)	93,955	**583,893**
Sweden 1.2%		
Nobina AB 144A (Cost $815,271)	194,737	**1,039,220**
Switzerland 0.9%		
Dufry AG (Registered)* (Cost $763,325)	6,626	**792,608**
Taiwan 0.2%		
Voltronic Power Technology Corp. (Cost $179,277)	13,000	**180,942**
United Kingdom 8.2%		
Arrow Global Group PLC	222,452	579,700
Auto Trader Group PLC 144A	116,424	552,076
AVEVA Group PLC	23,995	545,603
Babcock International Group PLC	84,561	1,023,572
Clinigen Healthcare Ltd.	80,058	647,557
Crest Nicholson Holdings PLC	87,032	418,297
Domino's Pizza Group PLC	135,846	600,948
Hargreaves Lansdown PLC	40,883	684,148
Howden Joinery Group PLC	115,481	593,104
Jardine Lloyd Thompson Group PLC	33,866	424,696
Polypipe Group PLC	175,076	608,604
Scapa Group PLC	65,861	233,746
Spirax-Sarco Engineering PLC	9,019	450,830
(Cost $6,347,056)		**7,362,881**

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

	Shares	Value ($)
United States 45.4%		
Advance Auto Parts, Inc.	5,533	894,299
Affiliated Managers Group, Inc.*	4,100	577,157
AZZ, Inc.	16,339	980,013
Berry Plastics Group, Inc.*	12,071	468,958
BioScrip, Inc.*	240,900	614,295
Cardtronics, Inc.* (b)	23,375	930,559
Casey's General Stores, Inc.	11,346	1,492,112
Cognex Corp.	17,319	746,449
Del Taco Restaurants, Inc.* (b)	90,698	825,352
Diamondback Energy, Inc.*	7,512	685,170
DigitalGlobe, Inc.*	11,852	253,514
Encore Capital Group, Inc.* (b)	15,428	363,021
FCB Financial Holdings, Inc. "A"*	18,879	641,886
Fox Factory Holding Corp.*	37,304	647,970
Gentherm, Inc.*	25,493	873,135
Hain Celestial Group, Inc.*	13,446	668,939
Harman International Industries, Inc.	7,519	540,015
Inphi Corp.*	15,515	496,945
Jack in the Box, Inc.	11,753	1,009,818
Kindred Healthcare, Inc.	43,609	492,346
Knowles Corp.* (b)	55,076	753,440
Leucadia National Corp.	36,618	634,590
Ligand Pharmaceuticals, Inc.* (b)	6,621	789,687
Manitowoc Foodservice, Inc.*	58,840	1,036,761
Masonite International Corp.*	9,432	623,832
Matador Resources Co.* (b)	28,037	555,133
MAXIMUS, Inc.	15,012	831,214
Middleby Corp.*	10,706	1,233,866
Molina Healthcare, Inc.* (b)	17,606	878,539
Neurocrine Biosciences, Inc.*	10,274	466,953
On Assignment, Inc.*	18,570	686,161
Pacira Pharmaceuticals, Inc.* (b)	24,797	836,403
PAREXEL International Corp.*	15,150	952,632
Patterson-UTI Energy, Inc.	21,800	464,776
Primoris Services Corp. (b)	53,345	1,009,821
Providence Service Corp.*	34,191	1,534,492
Retrophin, Inc.*	53,726	956,860
Sinclair Broadcast Group, Inc. "A"	30,145	900,130
South State Corp.	8,087	550,320
Super Micro Computer, Inc.*	20,138	500,429
Teladoc, Inc.*	17,900	286,758
Tenneco, Inc.*	18,438	859,395
The WhiteWave Foods Co.*	26,447	1,241,422
TiVo, Inc.*	78,060	772,794
Trinseo SA*	20,345	873,411
TriState Capital Holdings, Inc.*	54,437	747,420
United States Steel Corp. (b)	46,696	787,295
Urban Outfitters, Inc.*	22,845	628,238
VeriFone Systems, Inc.*	28,271	524,144
WABCO Holdings, Inc.*	11,920	1,091,514
WEX, Inc.*	6,461	572,897
Xactly Corp.*	26,200	335,622
Zions Bancorp.	31,382	788,630
Zoe's Kitchen, Inc.* (b)	18,802	681,949
(Cost $34,289,233)		**40,589,481**
Total Common Stocks (Cost $68,864,111)		**85,618,479**

Convertible Preferred Stock 0.2%

United States		
Providence Service Corp. (Cost $196,900)	1,969	**221,537**

Warrant 0.0%

France		
Parrot SA, Expiration Date 12/22/2022 (Cost $0)*	26,460	**10,927**

Securities Lending Collateral 10.6%

Daily Assets Fund "Capital Shares", 0.51% (d) (e) (Cost $9,498,575)	9,498,575	**9,498,575**

Cash Equivalents 3.4%

Deutsche Central Cash Management Government Fund, 0.44% (d) (Cost $2,999,450)	2,999,450	**2,999,450**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $81,559,036)†	109.9	**98,348,968**
Other Assets and Liabilities, Net	(9.9)	**(8,873,881)**
Net Assets	100.0	**89,475,087**

* Non-income producing security.

† The cost for federal income tax purposes was $83,238,951. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $15,110,017. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $21,603,697 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,493,680.

(a) Listed on the NASDAQ Exchange.

(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, 2016 amounted to $9,115,464, which is 10.2% of net assets.

(c) Listed on the New York Stock Exchange.

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

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

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, 2016 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	$ —	$ 456,092	$ 453,625	$ 909,717
Bermuda	647,685	—	—	647,685
Canada	1,469,675	—	—	1,469,675
China	—	791,394	—	791,394
Finland	—	1,058,843	—	1,058,843
France	1,200,668	2,797,805	—	3,998,473
Germany	—	4,798,485	—	4,798,485
Hong Kong	—	1,459,898	—	1,459,898
India	707,967	—	—	707,967
Indonesia	—	474,368	—	474,368
Ireland	—	2,988,509	—	2,988,509
Israel	522,764	—	—	522,764
Italy	—	1,030,116	—	1,030,116
Japan	—	9,534,189	—	9,534,189
Korea	—	616,207	—	616,207
Malaysia	—	813,948	886,354	1,700,302
Netherlands	705,801	902,170	—	1,607,971
Panama	752,891	—	—	752,891
Spain	—	583,893	—	583,893
Sweden	—	1,039,220	—	1,039,220
Switzerland	—	792,608	—	792,608
Taiwan	—	180,942	—	180,942
United Kingdom	—	7,362,881	—	7,362,881
United States	40,589,481	—	—	40,589,481
Convertible Preferred Stock	—	—	221,537	221,537
Warrant	—	—	10,927	10,927
Short-Term Investments (f)	12,498,025	—	—	12,498,025
Total	**$ 59,094,957**	**$ 37,681,568**	**$ 1,572,443**	**$ 98,348,968**

(f) See Investment Portfolio for additional detailed categorizations.

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:

	Common Stocks	**Convertible Preferred Stocks**	**Warrants**	**Total**
Balance as of December 31, 2015	$ 907,524	$ 231,659	$ 25,056	$ 1,164,239
Realized gains (loss)	(126,089)	—	—	(126,089)
Change in unrealized appreciation (depreciation)	5,327	(10,122)	(14,129)	(18,924)
Purchases	70,116	—	—	70,116
(Sales)	(980,613)	—	—	(980,613)
Transfers into Level 3 (g)	1,463,714	—	—	1,463,714
Transfers (out) of Level 3	—	—	—	—
Balance as of June 30, 2016	**$ 1,339,979**	**$ 221,537**	**$ 10,927**	**$ 1,572,443**
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2016	**$ (31,196)**	**$ (10,122)**	**$ (14,129)**	**$ (55,447)**

(g) During the period ended June 30, 2016, the amount of transfers between Level 2 and Level 3 was $1,463,714. The securities were halted on the exchange and are valued in accordance with procedures approved by the Board. A significant difference between the value and the price of the securities once they resume 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.

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

Statement of Assets and Liabilities

as of June 30, 2016 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $69,061,011) — including $9,115,464 of securities loaned	$	85,850,943
Investment in Daily Assets Fund (cost $9,498,575)*		9,498,575
Investment in Deutsche Central Cash Management Government Fund (cost $2,999,450)		2,999,450
Total investments in securities, at value (cost $81,559,036)		98,348,968
Foreign currency, at value (cost $721,778)		715,784
Receivable for investments sold		185,393
Receivable for Fund shares sold		6,195
Dividends receivable		113,496
Interest receivable		8,514
Foreign taxes recoverable		98,702
Other assets		1,031
Total assets		99,478,083
Liabilities		
Payable upon return of securities loaned		9,498,575
Payable for investments purchased		335,063
Payable for Fund shares redeemed		26,525
Accrued management fee		58,383
Accrued Trustees' fees		247
Other accrued expenses and payables		84,203
Total liabilities		10,002,996
Net assets, at value	**$**	**89,475,087**
Net Assets Consist of		
Distributions in excess of net investment income		(948,453)
Net unrealized appreciation (depreciation) on:		
Investments		16,789,932
Foreign currency		(13,199)
Accumulated net realized gain (loss)		3,072,722
Paid-in capital		70,574,085
Net assets, at value	**$**	**89,475,087**
Class A		
Net Asset Value, offering and redemption price per share ($87,049,263 ÷ 7,987,273 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**10.90**
Class B		
Net Asset Value, offering and redemption price per share ($2,425,824 ÷ 228,592 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**10.61**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $48,213)	$	721,405
Income distributions — Deutsche Central Cash Management Government Fund		3,581
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		61,685
Total income		786,671
Expenses:		
Management fee		412,173
Administration fee		46,312
Services to shareholders		1,318
Distribution service fee (Class B)		3,087
Record keeping fee (Class B)		553
Custodian fee		28,040
Professional fees		34,432
Reports to shareholders		13,744
Trustees' fees and expenses		3,338
Other		11,253
Total expenses before expense reductions		554,250
Expense reductions		(80,106)
Total expenses after expense reductions		474,144
Net investment income (loss)		**312,527**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		3,639,804
Foreign currency		127
		3,639,931
Change in net unrealized appreciation (depreciation) on:		
Investments		(10,576,500)
Foreign currency		2,917
		(10,573,583)
Net gain (loss)		**(6,933,652)**
Net increase (decrease) in net assets resulting from operations	**$**	**(6,621,125)**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income (loss)	$ 312,527	$ 539,119
Net realized gain (loss)	3,639,931	11,501,605
Change in net unrealized appreciation (depreciation)	(10,573,583)	(9,986,449)
Net increase (decrease) in net assets resulting from operations	(6,621,125)	2,054,275
Distributions to shareholders from:		
Net investment income:		
Class A	(351,519)	(1,276,149)
Class B	(3,345)	(19,017)
Net realized gains:		
Class A	(10,844,338)	(13,898,697)
Class B	(308,285)	(305,692)
Total distributions	(11,507,487)	(15,499,555)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,215,039	4,131,476
Reinvestment of distributions	11,195,857	15,174,846
Payments for shares redeemed	(12,845,504)	(36,780,664)
Net increase (decrease) in net assets from Class A share transactions	565,392	(17,474,342)
Class B		
Proceeds from shares sold	98,828	564,366
Reinvestment of distributions	311,630	324,709
Payments for redeemed	(184,142)	(706,649)
Net increase (decrease) in net assets from Class B share transactions	226,316	182,426
Increase (decrease) in net assets	(17,336,904)	(30,737,196)
Net assets at beginning of period	106,811,991	137,549,187
Net assets at end of period (including distributions in excess of net investment income of $948,453 and $906,116, respectively)	**$ 89,475,087**	**$ 106,811,991**

Other Information		
Class A		
Shares outstanding at beginning of period	7,905,300	9,224,528
Shares sold	188,937	286,903
Shares issued to shareholders in reinvestment of distributions	973,553	1,081,600
Shares redeemed	(1,080,517)	(2,687,731)
Net increase (decrease) in Class A shares	81,973	(1,319,228)
Shares outstanding at end of period	**7,987,273**	**7,905,300**
Class B		
Shares outstanding at beginning of period	207,982	194,372
Shares sold	8,537	41,126
Shares issued to shareholders in reinvestment of distributions	27,824	23,684
Shares redeemed	(15,751)	(51,200)
Net increase (decrease) in Class B shares	20,610	13,610
Shares outstanding at end of period	**228,592**	**207,982**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$13.17**	**$14.61**	**$17.31**	**$13.78**	**$12.67**	**$14.28**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.04	.06	.04	.04	.09	.08
Net realized and unrealized gain (loss)	(.74)	.21	(.69)	4.66	1.83	(1.45)
Total from investment operations	(.70)	.27	(.65)	4.70	1.92	(1.37)
Less distributions from:						
Net investment income	(.05)	(.14)	(.15)	(.10)	(.09)	(.24)
Net realized gains	(1.52)	(1.57)	(1.90)	(1.07)	(.72)	—
Total distributions	(1.57)	(1.71)	(2.05)	(1.17)	(.81)	(.24)
Net asset value, end of period	**$10.90**	**$13.17**	**$14.61**	**$17.31**	**$13.78**	**$12.67**
Total Return (%)[b]	(5.94)**	1.16	(4.13)	35.94	15.37	(9.90)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	87	104	135	154	124	123
Ratio of expenses before expense reductions (%)	1.19*	1.12	1.13	1.14	1.11	1.12
Ratio of expenses after expense reductions (%)	1.02*	.99	.97	.94	.98	1.00
Ratio of net investment income (loss) (%)	.68*	.41	.27	.28	.69	.57
Portfolio turnover rate (%)	17**	27	33	39	36	31

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 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$12.85**	**$14.29**	**$16.97**	**$13.52**	**$12.45**	**$14.03**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.02	.02	.00***	.01	.06	.05
Net realized and unrealized gain (loss)	(.72)	.21	(.67)	4.57	1.79	(1.43)
Total from investment operations	(.70)	.23	(.67)	4.58	1.85	(1.38)
Less distributions from:						
Net investment income	(.02)	(.10)	(.11)	(.06)	(.06)	(.20)
Net realized gains	(1.52)	(1.57)	(1.90)	(1.07)	(.72)	—
Total distributions	(1.54)	(1.67)	(2.01)	(1.13)	(.78)	(.20)
Net asset value, end of period	**$10.61**	**$12.85**	**$14.29**	**$16.97**	**$13.52**	**$12.45**
Total Return (%)[b]	(6.10)**	.86	(4.33)	35.67	15.01	(10.08)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	2	3	3	3	2	2
Ratio of expenses before expense reductions (%)	1.49*	1.41	1.41	1.34	1.43	1.38
Ratio of expenses after expense reductions (%)	1.28*	1.24	1.25	1.15	1.23	1.25
Ratio of net investment income (loss) (%)	.43*	.15	.02	.07	.44	.32
Portfolio turnover rate (%)	17**	27	33	39	36	31

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
*** Amount is less than $.005.

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (the "Trust") 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 Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® 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 Trust 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. 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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. 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. The 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, a portion of which may be recoverable. Based upon the current interpretation of the tax rules and regulations, estimated tax liabilities and recoveries 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, 2015 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 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 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, 2016, purchases and sales of investment securities (excluding short-term investments) aggregated $15,491,849 and $25,757,557, 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, 2016, 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, 2016 through April 30, 2016, 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	.99%
Class B	1.24%

Effective from May 1, 2016 through April 30, 2017, 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	1.07%
Class B	1.36%

For the six months ended June 30, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$	77,512
Class B		2,594
	$	**80,106**

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, 2016, the Administration Fee was $46,312, of which $7,622 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders		**Total Aggregated**		**Unpaid at June 30, 2016**
Class A	$	252	$	130
Class B		96		49
	$	**348**	**$**	**179**

Distribution Service Agreement. Deutsche AM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trust's 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, 2016, the Distribution Service Fee aggregated $3,087, of which $516 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,886, of which $5,634 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 42%, 16%, 16% 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 70% and 17%, 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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$ 940.60	$ 939.00
Expenses Paid per $1,000*	$ 4.92	$ 6.17

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,019.79	$1,018.50
Expenses Paid per $1,000*	$ 5.12	$ 6.42

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche Global Small Cap VIP	1.02%	1.28%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to 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 Small Cap VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. The Board observed that there were significant limitations to the usefulness of the comparative data provided by Morningstar, noting that the applicable Morningstar universe for the Fund included funds that pursue substantially different investment programs as compared to that pursued by the Fund. As a result, the Board gave increased weight to the Fund's performance relative to its benchmark than some of the additional comparative data. 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 2015. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Trustees also observed that the Lipper expense universe for the Fund included funds that pursue substantially different investment programs as compared to that pursued by the Fund. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM manages an institutional account comparable to the Fund, but that Deutsche AWM does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to 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. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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

Notes

Notes

Deutsche
Asset Management

VS1glosc-3 (R-028377-5 8/16)

Deutsche
Asset Management

June 30, 2016

Semiannual Report

Deutsche Variable Series II

Deutsche Government Money Market VIP

(formerly 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.

Performance Summary

June 30, 2016 (Unaudited)

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, 2016	.01%*
December 31, 2015	.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)	**6/30/16**	**12/31/15**
Government & Agency Obligations	54%	6%
Repurchase Agreements	46%	9%
Commercial Paper	—	40%
Certificates of Deposit and Bank Notes	—	23%
Municipal Bonds and Notes	—	13%
Short-Term Notes	—	5%
Time Deposits	—	4%
	100%	100%

Weighted Average Maturity	**6/30/16**	**12/31/15**
Deutsche Variable Series II — Deutsche Government Money Market VIP	31 days	29 days
Government & Agency Retail Money Fund Average*****	36 days	33 days

* The Fund is compared to its respective iMoneyNet Category: Government & Agency Retail Money Fund Average — Category includes the most broadly based of the government retail funds. These funds may invest in U.S. Treasury securities, securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities.

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.

Prior to May 2, 2016, this fund was known as Deutsche Money Market VIP. The Fund's strategy also changed at that time.

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.

Investment Portfolio

June 30, 2016 (Unaudited)

	Principal Amount ($)	Value ($)
Government & Agency Obligations 53.6%		
U.S. Government Sponsored Agencies 32.6%		
Federal Farm Credit Bank:		
0.51%*, 3/22/2017	1,500,000	1,499,942
0.55%*, 9/21/2017	500,000	500,000
Federal Home Loan Bank:		
0.17%**, 7/7/2016	2,000,000	1,999,907
0.17%**, 7/15/2016	1,000,000	999,864
0.25%**, 8/1/2016	2,000,000	1,999,449
0.25%**, 8/15/2016	1,000,000	999,575
0.25%**, 8/19/2016	4,950,000	4,947,777
0.25%**, 8/24/2016	3,500,000	3,497,638
0.25%**, 8/25/2016	2,000,000	1,998,992
0.28%**, 9/14/2016	5,000,000	4,994,062
0.28%**, 9/21/2016	1,000,000	999,089
0.37%, 10/7/2016	4,500,000	4,499,726
0.37%**, 10/14/2016	1,250,000	1,248,261
0.37%**, 10/25/2016	1,500,000	1,497,801
0.41%**, 12/12/2016	2,000,000	1,994,533
Federal Home Loan Mortgage Corp.:		
0.28%**, 9/9/2016	4,612,000	4,607,202
0.61%*, 12/21/2017	4,500,000	4,500,000
Federal National Mortgage Association:		
0.48%*, 10/21/2016	1,300,000	1,299,978
0.63%*, 12/20/2017	2,500,000	2,500,000
		46,583,796
U.S. Treasury Obligations 21.0%		
U.S. Treasury Bills:		
0.18%**, 7/28/2016	2,000,000	1,999,347
0.21%**, 8/11/2016	1,500,000	1,499,590
0.35%**, 2/2/2017	500,000	498,410
U.S. Treasury Floating Rate Notes:		
0.32%*, 4/30/2017	5,000,000	4,995,762
0.33%*, 7/31/2017	2,500,000	2,498,252
0.41%*, 1/31/2018	5,000,000	5,002,357
0.44%*, 4/30/2018	2,500,000	2,500,114
U.S. Treasury Notes:		
0.29%*, 7/31/2016	5,000,000	5,000,166
0.32%, 9/15/2016	1,500,000	1,501,631
0.38%, 10/15/2016	1,500,000	1,500,975
0.4%, 12/15/2016	3,000,000	3,002,131
		29,998,735
Total Government & Agency Obligations (Cost $76,582,531)		**76,582,531**
Repurchase Agreements 45.3%		
Barclays Capital PLC, 0.42%, dated 6/30/2016, to be repurchased at $10,400,121 on 7/1/2016 (a)	10,400,000	10,400,000
Merrill Lynch & Co., Inc., 0.42%, dated 6/30/2016, to be repurchased at $23,300,272 on 7/1/2016 (b)	23,300,000	23,300,000
Nomura Securities International, 0.42%, dated 6/30/2016, to be repurchased at $11,000,128 on 7/1/2016 (c)	11,000,000	11,000,000
Wells Fargo Bank, 0.43%, dated 6/30/2016, to be repurchased at $20,000,239 on 7/1/2016 (d)	20,000,000	20,000,000
Total Repurchase Agreements (Cost $64,700,000)		**64,700,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $141,282,531)†	98.9	**141,282,531**
Other Assets and Liabilities, Net	1.1	**1,601,169**
Net Assets	100.0	**142,883,700**

* 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, 2016.

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

† The cost for federal income tax purposes was $141,282,531.

(a) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
9,623,400	U.S. Treasury Inflation-Indexed Note	0.125	4/15/2021	9,939,189
692,600	U.S. Treasury STRIPS	Zero Coupon	11/15/2018–11/15/2022	668,913
Total Collateral Value				**10,608,102**

(b) Collateralized by $22,420,600 U.S. Treasury Inflation-Indexed Note, 0.125%, maturing on 4/15/2017 with a value of $23,766,033.

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

(c) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
3,100,223	Federal Home Loan Mortgage Corp.	3.0–4.5	1/1/2018–8/1/2044	3,319,273
1,326,578	Federal National Mortgage Association	4.5–5.0	6/1/2023–3/1/2046	1,455,502
3,910,758	Government National Mortgage Association	4.0–8.0	1/20/2028–8/15/2045	4,407,891
2,015,000	U.S. Treasury Note	1.125	4/30/2020	2,037,334
Total Collateral Value				**11,220,000**

(d) Collateralized by $19,594,045 Federal National Mortgage Association, 3.0%, maturing on 5/1/2046 with a value of $20,400,000.

STRIPS: Separate Trading of Registered Interest and Principal Securities

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, 2016 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 (e)	$ —	$ 76,582,531	$ —	$ 76,582,531
Repurchase Agreements	—	64,700,000	—	64,700,000
Total	**$ —**	**$141,282,531**	**$ —**	**$141,282,531**

(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, 2016 (Unaudited)

Assets		
Investments in non-affiliated securities, valued at amortized cost	$	76,582,531
Repurchase agreements, valued at amortized cost		64,700,000
Total investments, valued at amortized cost		141,282,531
Cash		6,487
Receivable for Fund shares sold		1,814,380
Interest receivable		29,201
Due from Advisor		126
Other assets		921
Total assets		143,133,646

Liabilities		
Payable for Fund shares redeemed		127,343
Distributions payable		631
Accrued management fee		17,303
Accrued Trustees' fees		1,385
Other accrued expenses and payables		103,284
Total liabilities		249,946
Net assets, at value	**$**	**142,883,700**

Net Assets Consist of		
Undistributed net investment income		1,126
Accumulated net realized gain (loss)		8,216
Paid-in capital		142,874,358
Net assets, at value	**$**	**142,883,700**
Class A **Net Asset Value,** offering and redemption price per share ($142,883,700 ÷ 142,958,074 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**1.00**

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income		
Income: Interest	$	295,727
Expenses: Management fee		169,859
Administration fee		63,303
Services to shareholders		842
Custodian fee		10,885
Professional fees		30,155
Reports to shareholders		38,500
Trustees' fee and expenses		3,862
Other		3,880
Total expenses before expense reductions		321,286
Expense reductions		(35,736)
Total expenses after expense reductions		285,550
Net investment income		**10,177**
Net realized gain (loss) from investments		**8,338**
Net increase (decrease) in net assets resulting from operations	**$**	**18,515**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income	$ 10,177	$ 15,996
Net realized gain (loss)	8,338	(122)
Net increase (decrease) in net assets resulting from operations	18,515	15,874
Distributions to shareholders from:		
Net investment income		
Class A	(9,851)	(15,989)
Fund share transactions:		
Class A		
Proceeds from shares sold	82,855,653	150,185,171
Reinvestment of distributions	9,822	16,193
Cost of shares redeemed	(74,210,656)	(193,027,682)
Net increase (decrease) in net assets from Class A share transactions	8,654,819	(42,826,318)
Increase (decrease) in net assets	8,663,483	(42,826,433)
Net assets at beginning of period	134,220,217	177,046,650
Net assets at end of period (including undistributed net investment income of $1,126 and $800, respectively)	**$ 142,883,700**	**$ 134,220,217**

Other Information		
Class A		
Shares outstanding at beginning of period	134,303,255	177,129,573
Shares sold	82,855,653	150,185,171
Shares issued to shareholders in reinvestment of distributions	9,822	16,193
Shares redeemed	(74,210,656)	(193,027,682)
Net increase (decrease) in Class A shares	8,654,819	(42,826,318)
Shares outstanding at end of period	**142,958,074**	**134,303,255**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	Years Ended December 31, 2015	2014	2013	2012	2011
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)	143	134	177	174	196	217
Ratio of expenses before expense reductions (%)	.51*	.49	.49	.49	.45	.51
Ratio of expenses after expense reductions (%)	.45*	.25	.18	.20	.31	.25
Ratio of net investment income (%)	.02*	.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 Government Money Market VIP (formerly 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, 2016, the Fund held repurchase agreements with a gross value of $64,700,000. 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, 2015 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.

Prior to May 1, 2016, under the Investment Management Agreement, the Fund paid the Advisor a monthly management fee based on its 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%

Effective May 1, 2016, under the Investment Management Agreement, the Fund pays the Advisor a monthly management fee based on its average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $500 million	.235%
Next $500 million	.220%
Next $1.0 billion	.205%
Over $2.0 billion	.190%

For the period from January 1, 2016 through September 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 0.51%.

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, 2016, the fee pursuant to the Investment Management Agreement aggregated $169,859, of which $35,413 was waived, resulting in an annualized effective rate of 0.21% 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, 2016, the Administration Fee was $63,303, of which $10,783 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $323, 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,512, of which $4,893 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.

Transactions with Affiliates. The Fund may purchase securities from, or sell securities to, an affiliated fund provided the affiliation is solely due to having a common investment adviser, common officers, or common trustees. During the six months ended June 30, 2016, the Fund engaged in securities sales of $1,500,000 with an affiliated fund in compliance with Rule 17a-7 under the 1940 Act.

C. Ownership of the Fund

At June 30, 2016, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 35%, 21%,14% and 13%.

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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$1,000.08
Expenses Paid per $1,000*	$ 2.24

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$1,022.63
Expenses Paid per $1,000*	$ 2.26

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Government Money Market VIP	.45%

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 (now known as Deutsche Government Money Market VIP) investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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- and three-year periods ended December 31, 2014, 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, 2014). The Board considered that the Fund's management fee would be reduced by 0.05% at all breakpoint levels if shareholders approve a proposal that would result in the Fund being restructured into a government money market fund. The Board noted that the Fund's Class A shares total (net) operating expenses were higher than the median (4th quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees ("Lipper Universe Expenses"). 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 Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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.

Board Considerations and Fee Evaluation of Amended Advisory Agreement

The Board of Trustees, all members of which are Independent Trustees, approved an amended and restated investment management agreement (the "New IMA") with Deutsche Investment Management Americas, Inc. ("DIMA"), the investment advisor to the Deutsche Money Market VIP (now known as Deutsche Government Money Market VIP) (the "Fund"), at an in person meeting conducted in July 2015. DIMA proposed the New IMA as part of a proposal to restructure the Fund from a "prime money market fund" to 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 part of the restructuring proposal, DIMA proposed to amend and restate the current investment management agreement (the "Current IMA") with the Fund such that DIMA would receive a reduced management fee for its investment management services to the restructured Fund upon the effective date of the restructuring. The effective date of the restructuring was May 2, 2016.

In connection with its review, the Board reviewed and considered materials regarding the restructuring proposal, including the New IMA, and met privately with counsel to review the proposal. The Board also was advised by its fee consultant.

In connection with its review of the New IMA, the Board noted that it approved the renewal of the Fund's Current IMA in September 2014 and was in the process of considering renewal of the Fund's Current IMA as part of the 2015 annual contract renewal process. In addition, the Board considered:

— With the exception of the management fee reduction, the terms of the New IMA were substantially the same as the terms of the Current IMA.

— DIMA's statement that there would be no reduction in services to the Fund as a result of the management fee reduction.

— DIMA's statement that the portfolio management team for the Fund would not change as a result of the restructuring of the Fund.

— Information on the Fund's investment management fee schedule and total operating expense ratio, assuming implementation of the New IMA, including information on management fees and total net operating expense ratios of other government money market funds provided by DIMA using information from Morningstar Direct and Lipper Inc.

— The Fund's management fee rate under the New IMA as compared to fees charged by DIMA to comparable funds.

Based on all of the information considered, the Board concluded that the management fees to be paid by the Fund under the New IMA were reasonable and appropriate in light of the nature, quality and extent of services expected to be provided by DIMA. The Board unanimously determined that approval of the New IMA is in the best interests of the Fund, and approved the New IMA. In making this determination, the Board did not give particular weight to any single factor identified above. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the New IMA.

Notes

Notes

Deutsche
Asset Management

VS2GMM-3 (R-028387-5 8/16)

Deutsche
Asset Management

June 30, 2016

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.

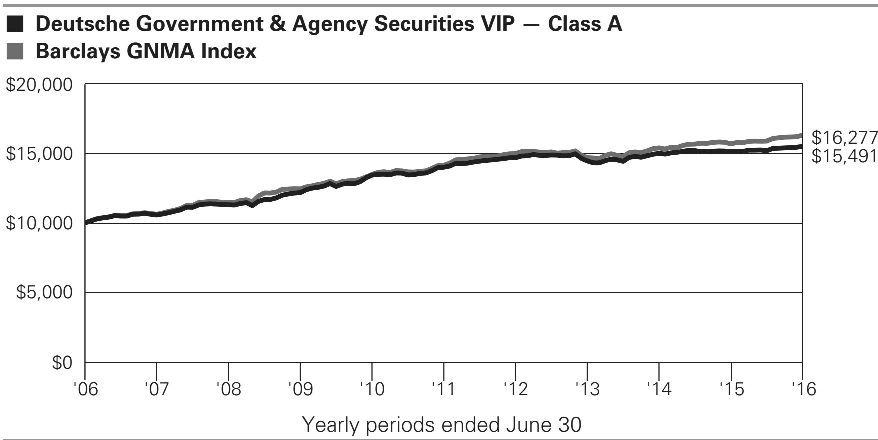
Performance Summary

June 30, 2016 (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, 2016 are 0.74% 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 Government & Agency Securities VIP



The Barclays GNMA Index is an unmanaged, market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association.

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

Comparative Results

Deutsche Government & Agency Securities VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,214	$10,250	$10,733	$11,076	$15,491
	Average annual total return	2.14%	2.50%	2.39%	2.06%	4.47%
Barclays GNMA Index	Growth of $10,000	$10,267	$10,397	$11,095	$11,526	$16,277
	Average annual total return	2.67%	3.97%	3.52%	2.88%	4.99%

Deutsche Government & Agency Securities VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,186	$10,213	$10,615	$10,885	$14,938
	Average annual total return	1.86%	2.13%	2.01%	1.71%	4.09%
Barclays GNMA Index	Growth of $10,000	$10,267	$10,397	$11,095	$11,526	$16,277
	Average annual total return	2.67%	3.97%	3.52%	2.88%	4.99%

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)	**6/30/16**	**12/31/15**
Mortgage-Backed Securities Pass-Throughs	83%	76%
Collateralized Mortgage Obligations	19%	22%
Government & Agency Obligations	14%	5%
Commercial Mortgage-Backed Securities	2%	2%
Cash Equivalents and Other Assets and Liabilities, net	–18%	–5%
	100%	100%

Coupons*	**6/30/16**	**12/31/15**
Less than 3.5%	32%	9%
3.5%–4.49%	24%	39%
4.5%–5.49%	25%	32%
5.5%–6.49%	17%	18%
6.5%–7.49%	2%	2%
7.5% and Greater	0%	0%
	100%	100%

Interest Rate Sensitivity	**6/30/16**	**12/31/15**
Effective Maturity	7.4 years	6.9 years
Effective Duration	2.0 years	3.7 years

* Excludes Cash Equivalents and U.S. Treasury Bills.

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

Gregory M. Staples, CFA

Scott Agi, CFA

Portfolio Managers

	Principal Amount ($)	Value ($)
Mortgage-Backed Securities Pass-Throughs 83.5%		
Federal Home Loan Mortgage Corp., 3.0%, 3/1/2043 (a)	6,200,000	6,427,255
Federal National Mortgage Association:		
3.0%, 5/1/2043 (a)	2,400,000	2,490,656
3.5%, 9/1/2043 (a)	2,100,000	2,215,828
4.0%, with various maturities from 3/1/2042 until 4/1/2046	1,170,579	1,259,387
Government National Mortgage Association:		
3.0%, 1/1/2044 (a)	3,000,000	3,136,699
3.5%, with various maturities from 4/15/2042 until 1/15/2046 (a)	8,741,410	9,304,397
4.0%, with various maturities from 9/20/2040 until 6/20/2043	3,270,659	3,557,826
4.5%, with various maturities from 6/20/2033 until 10/15/2041	6,203,885	6,797,383
4.55%, 1/15/2041	258,740	285,199
4.625%, 5/15/2041	102,959	113,614
5.0%, with various maturities from 12/15/2032 until 4/15/2042	4,882,697	5,514,889
5.5%, with various maturities from 10/15/2032 until 7/20/2040	5,035,969	5,704,784
6.0%, with various maturities from 2/15/2034 until 2/15/2039	4,253,333	4,958,553
6.5%, with various maturities from 9/15/2036 until 2/15/2039	483,067	558,203
7.0%, with various maturities from 2/20/2027 until 11/15/2038	108,498	112,841
7.5%, 10/20/2031	4,745	5,521
Total Mortgage-Backed Securities Pass-Throughs (Cost $51,220,309)		**52,443,035**
Collateralized Mortgage Obligations 18.7%		
Federal Home Loan Mortgage Corp.:		
"OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036	114,779	107,954
"KO", Series 4180, Principal Only, Zero Coupon, 1/15/2043	1,184,999	947,790
"YI", Series 3936, Interest Only, 3.0%, 6/15/2025	54,677	2,075
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	736,813	42,332
"WI", Series 3939, Interest Only, 3.0%, 10/15/2025	243,883	11,915
"EI", Series 3953, Interest Only, 3.0%, 11/15/2025	359,043	19,699
"IO", Series 3974, Interest Only, 3.0%, 12/15/2025	125,151	8,457
"DI", Series 4010, Interest Only, 3.0%, 2/15/2027	100,221	8,305
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	1,039,105	96,888
"CZ", Series 4113, 3.0%, 9/15/2042	383,977	392,432
"IK", Series 3754, Interest Only, 3.5%, 6/15/2025	533,102	27,684
"PZ", Series 4553, 3.5%, 2/15/2046	548,530	598,118
"PI", Series 3940, Interest Only, 4.0%, 2/15/2041	420,560	42,448
"C1", Series 329, Interest only, 4.0%, 12/15/2041	1,250,315	192,104
"UA", Series 4298, 4.0%, 2/15/2054	222,851	227,455
"22", Series 243, Interest Only, 4.097%*, 6/15/2021	116,101	3,281
"C32", Series 303, Interest Only, 4.5%, 12/15/2042	1,242,425	228,171
"C28", Series 303, Interest only, 4.5%, 1/15/2043	1,490,511	279,475
"MI", Series 3871, Interest Only, 6.0%, 4/15/2040	76,332	7,322
"IJ", Series 4472, Interest Only, 6.0%, 11/15/2043	516,386	112,923
"SP", Series 4047, Interest Only, 6.208%*, 12/15/2037	442,154	52,728
"A", Series 172, Interest Only, 6.5%, 1/1/2024	11,658	1,818
"C22", Series 324, Interest Only, 6.5%, 4/15/2039	672,317	187,326
"DS", Series 3199, Interest Only, 6.708%*, 8/15/2036	1,341,658	301,826
"S", Series 2416, Interest Only, 7.658%*, 2/15/2032	190,937	47,940
"ST", Series 2411, Interest Only, 8.308%*, 6/15/2021	103,033	5,786
"KS", Series 2064, Interest Only, 9.708%*, 5/15/2022	165,648	34,326
Federal National Mortgage Association:		
"DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026	113,238	5,114
"IB", Series 2013-35, Interest Only, 3.0%, 4/25/2033	651,963	103,202
"Z", Series 2013-44, 3.0%, 5/25/2043	144,716	145,514
"HI", Series 2010-123, Interest Only, 3.5%, 3/25/2024	130,439	2,682
"KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025	370,975	6,242
''IO", Series 2012-146, Interest Only, 3.5%, 1/25/2043	1,503,370	224,834
"4", Series 406, Interest Only, 4.0%, 9/25/2040	296,678	43,332
"25", Series 351, Interest Only, 4.5%, 5/25/2019	57,298	2,528
"PZ", Series 2010-129, 4.5%, 11/25/2040	762,993	812,036
"21", Series 334, Interest Only, 5.0%, 3/25/2018	16,519	469
"20", Series 334, Interest Only, 5.0%, 3/25/2018	25,994	736
''23", Series 339, Interest Only, 5.0%, 6/25/2018	37,455	1,112
"26", Series 381, Interest Only, 5.0%, 12/25/2020	24,597	1,677
"IO", Series 2016-26, Interest Only, 5.0%, 5/25/2046	1,348,020	255,621
"30", Series 381, Interest Only, 5.5%, 11/25/2019	120,510	7,742
"PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024	2,505,020	204,088

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

	Principal Amount ($)	Value ($)
"UI", Series 2010-126, Interest Only, 5.5%, 10/25/2040	564,476	103,823
"IO", Series 2014-70, Interest Only, 5.5%, 10/25/2044	709,230	160,794
"BI", Series 2015-97, Interest Only, 5.5%, 1/25/2046	606,956	109,385
"PJ", Series 2004-46, Interest Only, 5.547%*, 3/25/2034	201,727	30,439
"WI", Series 2011-59, Interest Only, 6.0%, 5/25/2040	141,914	9,323
"SJ", Series 2007-36, Interest Only, 6.317%*, 4/25/2037	104,396	18,431
"101", Series 383, Interest Only, 6.5%, 9/25/2022	521,073	66,203
"SA", Series G92-57, IOette, 80.974%*, 10/25/2022	20,836	37,708
Government National Mortgage Association:		
"PB", Series 2012-90, 2.5%, 7/20/2042	515,988	495,797
"JI" Series 2013-10, Interest Only, 3.5%, 1/20/2043	637,254	97,208
"ID", Series 2013-70, Interest Only, 3.5%, 5/20/2043	308,766	47,798
"BI", Series 2014-22, Interest Only, 4.0%, 2/20/2029	667,641	68,552
"IP", Series 2015-50, Interest Only, 4.0%, 9/20/2040	1,544,160	143,437
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	453,037	43,872
"LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018	68,761	2,622
"NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037	169,003	4,945
"CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038	1,251,588	125,863
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	339,313	40,218
"MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040	426,255	51,404
"Z", Series 2010-169, 4.5%, 12/20/2040	612,052	664,425
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044	232,957	28,493
"GZ", Series 2005-24, 5.0%, 3/20/2035	587,257	721,571
"ZA", Series 2005-75, 5.0%, 10/16/2035	660,654	782,434
"MZ", Series 2009-98, 5.0%, 10/16/2039	1,185,449	1,520,821
"AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023	67,800	3,288
"GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033	463,604	80,397
"IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038	120,585	18,525
"IA", Series 2012-64, Interest Only, 5.5%, 5/16/2042	269,805	57,188
"BS", Series 2011-93, Interest Only, 5.658%*, 7/16/2041	804,786	142,857
"SA", Series 2012-84, Interest Only, 5.852%*, 12/20/2038	828,333	77,259
"DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038	186,765	31,236
"QA", Series 2007-57, Interest Only, 6.052%*, 10/20/2037	176,220	31,966
"IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039	49,540	10,948
"SK", Series 2003-11, Interest Only, 7.258%*, 2/16/2033	304,628	53,405
"IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027	369,351	85,298
Total Collateralized Mortgage Obligations (Cost $10,849,840)		**11,773,440**

Commercial Mortgage-Backed Securities 2.2%

	Principal Amount ($)	Value ($)
FHLMC Multifamily Structured Pass-Through Certificates:		
"A2", Series KJ02, 2.597%, 9/25/2020	730,000	760,286
"A2", Series K050, 3.334%, 8/25/2025	580,000	639,383
Total Commercial Mortgage-Backed Securities (Cost $1,334,677)		**1,399,669**

Government & Agency Obligations 14.0%

Other Government Related (b) 0.4%

	Principal Amount ($)	Value ($)
Province of British Columbia Canada, 2.25%, 6/2/2026	250,000	**256,289**

U.S. Government Sponsored Agencies 4.3%

	Principal Amount ($)	Value ($)
Federal Farm Credit Bank, 1.06%, 6/3/2019	2,000,000	2,013,104
Federal Home Loan Mortgage Corp., 6.25%, 7/15/2032	450,000	680,812
		2,693,916

U.S. Treasury Obligations 9.3%

	Principal Amount ($)	Value ($)
U.S. Treasury Bill, .351%**, 8/11/2016 (c)	384,000	383,911
U.S. Treasury Notes:		
0.625%, 6/30/2018	1,200,000	1,200,563
1.0%, 8/31/2016 (d)	1,000,000	1,001,158
1.0%, 6/30/2021	1,200,000	1,205,953
2.625%, 11/15/2020	1,900,000	2,035,671
		5,827,256
Total Government & Agency Obligations (Cost $8,728,506)		**8,777,461**

Cash Equivalents 12.3%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 0.44% (e) (Cost $7,730,068)	7,730,068	**7,730,068**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $79,863,400)†	130.7	**82,123,673**
Other Assets and Liabilities, Net	(30.7)	**(19,313,631)**
Net Assets	100.0	**62,810,042**

* These securities are shown at their current rate as of June 30, 2016.

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

† The cost for federal income tax purposes was $79,868,695. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $2,254,978. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value

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

over tax cost of $2,892,136 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $637,158.

(a) When-issued or delayed delivery securities included.

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

(c) At June 30, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(d) At June 30, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap 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, 2016 is 0.65%.

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

At June 30, 2016, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year U.S. Treasury Note	USD	9/21/2016	18	2,393,719	(23,534)
2 Year U.S. Treasury Note	USD	9/30/2016	36	7,895,813	(17,508)
U.S. Treasury Long Bond	USD	9/21/2016	7	1,206,406	(32,664)
Ultra 10 Year U.S. Treasury Note	USD	9/21/2016	12	1,748,063	(30,776)
Ultra Long U.S. Treasury Bond	USD	9/21/2016	20	3,727,500	(234,230)
Total unrealized depreciation					**(338,712)**

Currency Abbreviation	
USD	United States Dollar

At June 30, 2016, 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 9/17/2017	7,500,000	Fixed — 1.0%	Floating — 3-Month LIBOR	(48,119)	(67,501)
6/15/2016 6/15/2026	3,900,000	Floating — 3-Month LIBOR	Fixed — 2.25%	329,304	117,245
Total net unrealized appreciation					**49,744**

At June 30, 2016, open total return swap contracts were as follows:

Bilateral Swaps

Expiration Date	Notional Amount ($)	Fixed Cash Flows Received	Pay/Receive Return of the Reference Index	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Depreciation ($)
1/12/2041	1,115,686[1]	4.0%	Markit IOS INDEX FN30.400.10	(13,678)	—	(13,678)
1/12/2041	1,115,686[2]	4.0%	Markit IOS INDEX FN30.400.10	(13,678)	—	(13,678)
Total unrealized depreciation						**(27,356)**

Counterparties:

1 Credit Suisse

2 Goldman Sachs & Co.

For information on the Fund's policy and additional disclosures regarding futures contracts, interest rate swap contracts and total return swap contracts, please refer to the Derivatives section of Note B in the accompanying Notes to Financial Statements.

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, 2016 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed-Income Investments (f)				
Mortgage-Backed Securities Pass-Throughs	$ —	$ 52,443,035	$ —	$ 52,443,035
Collateralized Mortgage Obligations	—	11,773,440	—	11,773,440
Commercial Mortgage-Backed Securities	—	1,399,669	—	1,399,669
Government & Agency Obligations	—	8,777,461	—	8,777,461
Short-Term Investments	7,730,068	—	—	7,730,068
Derivatives (g)				
Interest Rate Swap Contracts	—	117,245	—	117,245
Total	**$ 7,730,068**	**$ 74,510,850**	**$ —**	**$ 82,240,918**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (g)				
Futures Contracts	$ (338,712)	$ —	$ —	$ (338,712)
Interest Rate Swap Contracts	—	(67,501)	—	(67,501)
Total Return Swap Contracts	—	(27,356)	—	(27,356)
Total	**$ (338,712)**	**$ (94,857)**	**$ —**	**$ (433,569)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(f) See Investment Portfolio for additional detailed categorizations.

(g) Derivatives include unrealized appreciation (depreciation) on open futures contracts, interest rate swap contracts and total return swap contracts.

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

Statement of Assets and Liabilities

as of June 30, 2016 (Unaudited)

Assets	
Investments	
Investments in non-affiliated securities, at value (cost $72,133,332)	$ 74,393,605
Investment in Deutsche Central Cash Management Government Fund (cost $7,730,068)	7,730,068
Total investments in securities, at value (cost $79,863,400)	82,123,673
Receivable for investments sold	1,741,579
Receivable for investments sold — when-issued/delayed delivery securities	4,869,385
Receivable for Fund shares sold	3,120
Interest receivable	307,167
Receivable for variation margin on futures contracts	20,939
Receivable for variation margin on centrally cleared swaps	1,890
Other assets	715
Total assets	89,068,468
Liabilities	
Cash overdraft	2,945
Payable for investments purchased	1,734,799
Payable for investments purchased — when-issued/delayed delivery securities	24,311,135
Payable for Fund shares redeemed	89,962
Unrealized depreciation on bilateral swap contracts	27,356
Accrued management fee	6,760
Accrued Trustees' fees	833
Other accrued expenses and payables	84,636
Total liabilities	26,258,426
Net assets, at value	**$ 62,810,042**
Net Assets Consist of	
Undistributed net investment income	757,135
Unrealized appreciation (depreciation) on:	
Investments	2,260,273
Swap contracts	22,388
Futures	(338,712)
Accumulated net realized gain (loss)	(417,756)
Paid-in capital	60,526,714
Net assets, at value	**$ 62,810,042**
Class A	
Net Asset Value, offering and redemption price per share ($60,158,126 ÷ 5,296,835 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 11.36**
Class B	
Net Asset Value, offering and redemption price per share ($2,651,916 ÷ 233,410 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 11.36**

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income	
Income:	
Interest	$ 894,860
Income distributions — Deutsche Central Cash Management Government Fund	16,060
Total income	910,920
Expenses:	
Management fee	144,634
Administration fee	32,141
Services to shareholders	811
Record keeping fees (Class B)	1,297
Distribution service fees (Class B)	3,371
Custodian fee	17,558
Professional fees	41,412
Reports to shareholders	13,136
Trustees' fees and expenses	2,520
Other	9,512
Total expenses before expense reductions	266,392
Expense reductions	(74,973)
Total expenses after expense reductions	191,419
Net investment income	**719,501**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	1,331,434
Swap contracts	(369,308)
Futures	(823,123)
Written options	28,320
Payment by affiliate (see Note G)	6,881
	174,204
Change in net unrealized appreciation (depreciation) on:	
Investments	(51,143)
Swap contracts	765,779
Futures	(246,732)
Written options	(28,320)
	439,584
Net gain (loss)	**613,788**
Net increase (decrease) in net assets resulting from operations	**$ 1,333,289**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income	$ 719,501	$ 1,915,259
Net realized gain (loss)	174,204	360,503
Change in net unrealized appreciation (depreciation)	439,584	(2,269,736)
Net increase (decrease) in net assets resulting from operations	1,333,289	6,026
Distributions to shareholders from:		
Net investment income:		
Class A	(1,846,498)	(2,287,159)
Class B	(72,152)	(68,234)
Total distributions	(1,918,650)	(2,355,393)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,870,359	7,621,170
Reinvestment of distributions	1,846,498	2,287,159
Payments for shares redeemed	(9,408,673)	(27,899,252)
Net increase (decrease) in net assets from Class A share transactions	(5,691,816)	(17,990,923)
Class B		
Proceeds from shares sold	183,762	247,684
Reinvestment of distributions	72,152	68,234
Payments for shares redeemed	(230,064)	(610,489)
Net increase (decrease) in net assets from Class B share transactions	25,850	(294,571)
Increase (decrease) in net assets	(6,251,327)	(20,634,861)
Net assets at beginning of period	69,061,369	89,696,230
Net assets at end of period (including undistributed net investment income of $757,135 and $1,956,284, respectively)	**$ 62,810,042**	**$ 69,061,369**

Other Information		
Class A		
Shares outstanding at beginning of period	5,786,470	7,344,193
Shares sold	162,670	659,618
Shares issued to shareholders in reinvestment of distributions	163,697	199,403
Shares redeemed	(816,002)	(2,416,744)
Net increase (decrease) in Class A shares	(489,635)	(1,557,723)
Shares outstanding at end of period	**5,296,835**	**5,786,470**
Class B		
Shares outstanding at beginning of period	231,100	256,223
Shares sold	16,008	21,476
Shares issued to shareholders in reinvestment of distributions	6,391	5,944
Shares redeemed	(20,089)	(52,543)
Net increase (decrease) in Class B shares	2,310	(25,123)
Shares outstanding at end of period	**233,410**	**231,100**

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

Financial Highlights

Class A

	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$11.48**	**$11.80**	**$11.47**	**$12.69**	**$13.12**	**$12.98**
Income (loss) from investment operations:						
Net investment income[a]	.13	.27	.29	.24	.34	.48
Net realized and unrealized gain (loss)	.10	(.26)	.31	(.59)	.03	.45
Total from investment operations	.23	.01	.60	(.35)	.37	.93
Less distributions from:						
Net investment income	(.35)	(.33)	(.27)	(.37)	(.52)	(.57)
Net realized gains	—	—	—	(.50)	(.28)	(.22)
Total distributions	(.35)	(.33)	(.27)	(.87)	(.80)	(.79)
Net asset value, end of period	**$11.36**	**$11.48**	**$11.80**	**$11.47**	**$12.69**	**$13.12**
Total Return (%)	2.14[b]**	.06[b]	5.29[b]	(3.04)[b]	2.93[b]	7.46
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	60	66	87	96	121	146
Ratio of expenses before expense reductions (%)	.81*	.74	.72	.71	.68	.67
Ratio of expenses after expense reductions (%)	.58*	.68	.70	.67	.66	.67
Ratio of net investment income (%)	2.25*	2.33	2.49	2.05	2.65	3.68
Portfolio turnover rate (%)	234**	376	393	794	796	673

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 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$11.46**	**$11.79**	**$11.46**	**$12.67**	**$13.10**	**$12.95**
Income (loss) from investment operations:						
Net investment income[a]	.11	.23	.25	.20	.29	.43
Net realized and unrealized gain (loss)	.10	(.27)	.31	(.59)	.03	.46
Total from investment operations	.21	(.04)	.56	(.39)	.32	.89
Less distributions from:						
Net investment income	(.31)	(.29)	(.23)	(.32)	(.47)	(.52)
Net realized gains	—	—	—	(.50)	(.28)	(.22)
Total distributions	(.31)	(.29)	(.23)	(.82)	(.75)	(.74)
Net asset value, end of period	**$11.36**	**$11.46**	**$11.79**	**$11.46**	**$12.67**	**$13.10**
Total Return (%)	1.86[b]**	(.36)[b]	4.95[b]	(3.25)[b]	2.48[b]	7.15
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	3	3	3	4	5	7
Ratio of expenses before expense reductions (%)	1.16*	1.09	1.06	1.06	1.03	1.01
Ratio of expenses after expense reductions (%)	.93*	1.03	1.03	.99	1.01	1.01
Ratio of net investment income (%)	1.90*	1.99	2.16	1.71	2.29	3.34
Portfolio turnover rate (%)	234**	376	393	794	796	673

a Based on average shares outstanding during the period.

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

* Annualized

** Not annualized

Notes to Financial Statements

(Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Government & Agency Securities VIP (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. The Fund is approved to participate in securities lending, but had no securities on loan during the six months ended June 30, 2016. 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. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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.

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, 2015, the Fund had net tax basis capital loss carryforwards of approximately $679,000 of short-term losses, which may be applied against realized net taxable capital gains indefinitely.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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.

Total Return Swap Contracts. Total return swaps involve commitments to pay interest in exchange for a market-linked return based on a notional amount. One counterparty pays out the total return of the reference security or index underlying the total return swap, and in return receives a fixed or variable rate. As a receiver, the Fund would receive payments based on any positive total return and would owe payments in the event of a negative total return. As the payer, the Fund would owe payments on any net positive total return, and would receive payments in the event of a negative total return. For the six months ended June 30, 2016, the Fund entered into total return swap transactions as a means of gaining exposure to a particular asset class without investing directly in such asset class.

A summary of the open total return swap contracts as of June 30, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in total return swap contracts had a total notional amount generally indicative of a range from $0 to approximately $2,357,000.

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, 2016, 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, 2016, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $11,400,000 to $45,034,000.

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, 2016, 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.

There were no purchased or written option contracts as of June 30, 2016. For the six months ended June 30, 2016, the investment in written option contracts had a total value generally indicative of a range from $0 to approximately $100.

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, 2016, 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, 2016, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to approximately $12,578,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $6,231,000 to approximately $16,972,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2016 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	Swap Contracts
Interest Rate Contracts (a)	$ 117,245

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

(a) Includes cumulative appreciation of 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	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a) (b)	$ (94,857)	$ (338,712)	$ (433,569)

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) 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, 2016 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)	$ 28,320	$ (369,308)	$ (823,123)	$ (1,164,111)

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

(a) Net realized gain (loss) on written options, swap contracts and futures, respectively

Change in Net Unrealized Appreciation (Depreciation)	Written Options	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ (28,320)	$ 765,779	$ (246,732)	$ 490,727

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

(a) Change in net unrealized appreciation (depreciation) from written options, swap contracts and futures, respectively

As of June 30, 2016, 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 Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Credit Suisse	$ 13,678	$ —	$ —	$ 13,678
Goldman Sachs & Co.	13,678	—	—	13,678
	$ 27,356	**$ —**	**$ —**	**$ 27,356**

C. Purchases and Sales of Securities

During the six months ended June 30, 2016, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $164,780,285 and $165,236,076, respectively. Purchases and sales of U.S. Treasury securities aggregated $12,090,138 and $10,064,390, respectively.

For the six months ended June 30, 2016, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	2,400,000	$ 28,320
Options expired	(2,400,000)	(28,320)
Outstanding, end of period	—	$ —

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, 2016, 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, 2016 through April 30, 2017, 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	.58%
Class B	.93%

For the six months ended June 30, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$	71,838
Class B		3,135
	$	**74,973**

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, 2016, the Administration Fee was $32,141, of which $5,151 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

		Total Aggregated		Unpaid at June 30, 2016
Class A	$	144	$	73
Class B		33		19
	$	**177**	**$**	**92**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, Deutsche AM 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, 2016, the Distribution Service Fee aggregated $3,371, of which $546 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under “Reports to shareholders” aggregated $6,614, of which $6,094 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 34% and 55%. 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, 2016.

G. Payment by Affiliate

During the six months ended June 30, 2016, the Advisor agreed to reimburse the Fund $6,881 for a loss incurred on a trade executed incorrectly.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,021.40	$1,018.60
Expenses Paid per $1,000*	$ $2.92	$ 4.67

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,021.98	$1,020.24
Expenses Paid per $1,000*	$ 2.92	$ 4.67

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Government & Agency Securities VIP	.58%	.93%

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 2015.

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

In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 2nd 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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 Management

VS2GAS-3 (R-028384-5 8/16)

Deutsche
Asset Management

June 30, 2016

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.

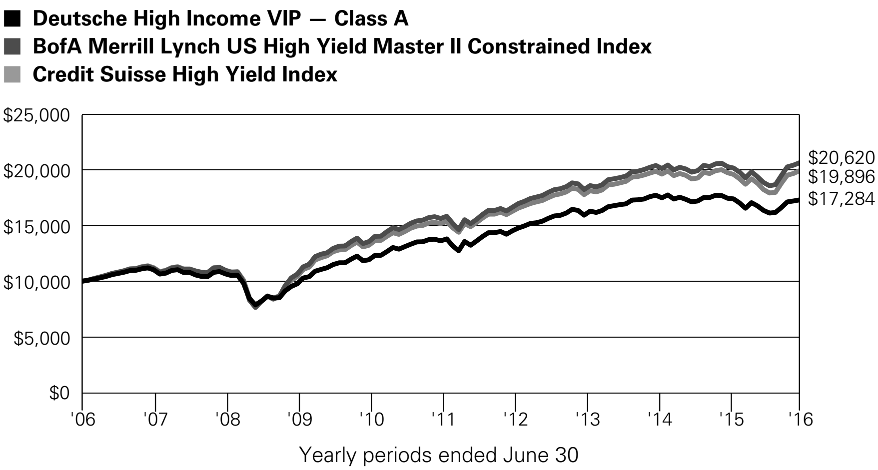
Performance Summary

June 30, 2016 (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, 2016 are 0.75% and 1.14% 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



BofA Merrill Lynch US High Yield Master II Constrained Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

The Credit Suisse High Yield Index tracks the performance of the global high-yield debt market.

On June 1, 2016, the BofA Merrill Lynch US High Yield Master II Constrained Index replaced the Credit Suisse High Yield Index as the fund's comparative broad-based securities market index because the Advisor believes the BofA Merrill Lynch US High Yield Master II Constrained Index more closely reflects the fund's investment strategies.

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	$10,568	$9,916	$10,856	$12,688	$17,284
	Average annual total return	5.68%	–0.84%	2.78%	4.88%	5.62%
BofA Merrill Lynch US High Yield Master II Constrained Index	Growth of $10,000	$10,932	$10,174	$11,312	$13,196	$20,620
	Average annual total return	9.32%	1.74%	4.20%	5.70%	7.51%
Credit Suisse High Yield Index	Growth of $10,000	$10,921	$10,089	$11,202	$13,123	$19,896
	Average annual total return	9.21%	0.89%	3.86%	5.59%	7.12%

Deutsche High Income VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,552	$9,871	$10,720	$12,473	$16,722
	Average annual total return	5.52%	–1.29%	2.34 %	4.52%	5.28%
BofA Merrill Lynch US High Yield Master II Constrained Index	Growth of $10,000	$10,932	$10,174	$11,312	$13,196	$20,620
	Average annual total return	9.32%	1.74%	4.20%	5.70%	7.51%
Credit Suisse High Yield Index	Growth of $10,000	$10,921	$10,089	$11,202	$13,123	$19,896
	Average annual total return	9.21 %	0.89 %	3.86%	5.59%	7.12%

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)	**6/30/16**	**12/31/15**
Corporate Bonds	95%	92%
Convertible Bond	2%	1%
Cash Equivalents	1%	4%
Government & Agency Obligations	1%	1%
Preferred Security	1%	1%
Loan Participations and Assignments	0%	1%
Common Stocks	0%	0%
Warrant	0%	0%
Preferred Stock	—	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Government & Agency Obligations, Cash Equivalents and Securities Lending Collateral)	**6/30/16**	**12/31/15**
Consumer Discretionary	28%	29%
Materials	16%	9%
Telecommunication Services	14%	14%
Energy	14%	10%
Industrials	9%	12%
Health Care	5%	9%
Utilities	4%	3%
Financials	4%	5%
Information Technology	4%	5%
Consumer Staples	2%	4%
	100%	100%

Quality (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/16**	**12/31/15**
AAA	1%	1%
BBB	3%	3%
BB	54%	50%
B	37%	41%
CCC	5%	4%
Not Rated	0%	1%
	100%	100%

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

Gary Russell, CFA
Thomas R. Bouchard
Portfolio Managers

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 92.8%		
Consumer Discretionary 26.6%		
1011778 B.C. Unlimited Liability Co., 144A, 4.625%, 1/15/2022	125,000	125,938
Ally Financial, Inc.:		
4.125%, 3/30/2020 (b)	285,000	285,712
5.75%, 11/20/2025 (b)	460,000	461,150
Altice Financing SA:		
144A, 6.5%, 1/15/2022	200,000	202,000
144A, 7.5%, 5/15/2026	785,000	769,300
Altice U.S. Finance I Corp., 144A, 5.5%, 5/15/2026	480,000	480,000
AMC Entertainment, Inc., 5.875%, 2/15/2022	220,000	221,100
AmeriGas Finance LLC, 7.0%, 5/20/2022	350,000	369,467
APX Group, Inc., 6.375%, 12/1/2019 (b)	205,000	202,950
Asbury Automotive Group, Inc., 6.0%, 12/15/2024	885,000	891,637
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	360,000	323,100
Beacon Roofing Supply, Inc., 6.375%, 10/1/2023 (b)	160,000	167,600
Block Communications, Inc., 144A, 7.25%, 2/1/2020	375,000	378,750
Boyd Gaming Corp., 6.875%, 5/15/2023 (b)	140,000	149,100
CalAtlantic Group, Inc., 5.25%, 6/1/2026	573,000	555,810
Caleres, Inc., 6.25%, 8/15/2023	110,000	111,650
CCO Holdings LLC:		
144A, 5.125%, 5/1/2023	385,000	387,166
144A, 5.5%, 5/1/2026	1,330,000	1,349,950
144A, 5.875%, 4/1/2024	235,000	243,812
144A, 5.875%, 5/1/2027	480,000	495,600
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	602,000	573,405
144A, 6.375%, 9/15/2020	940,000	955,792
Churchill Downs, Inc., 144A, 5.375%, 12/15/2021	135,000	137,869
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	250,000	240,625
Series B, 6.5%, 11/15/2022	365,000	365,000
Series A, 7.625%, 3/15/2020	110,000	100,375
Series B, 7.625%, 3/15/2020	315,000	299,722
Cogeco Communications, Inc., 144A, 4.875%, 5/1/2020	20,000	20,400
CSC Holdings LLC, 5.25%, 6/1/2024 (b)	585,000	532,350
Dana Holding Corp., 5.5%, 12/15/2024 (b)	180,000	171,000
DISH DBS Corp.:		
5.875%, 7/15/2022	100,000	97,250
6.75%, 6/1/2021	50,000	51,813
7.875%, 9/1/2019	270,000	297,675
Dollar Tree, Inc., 144A, 5.25%, 3/1/2020	420,000	432,600
Fiat Chrysler Automobiles NV:		
4.5%, 4/15/2020 (b)	645,000	652,256
5.25%, 4/15/2023 (b)	245,000	243,469
Global Partners LP, 7.0%, 6/15/2023	235,000	196,225
GLP Capital LP:		
4.375%, 4/15/2021	100,000	103,000
5.375%, 4/15/2026	320,000	329,600
Goodyear Tire & Rubber Co.:		
5.0%, 5/31/2026	315,000	320,906
5.125%, 11/15/2023	165,000	170,363
Group 1 Automotive, Inc.:		
5.0%, 6/1/2022 (b)	455,000	448,175
144A, 5.25%, 12/15/2023 (b)	545,000	535,462
Hanesbrands, Inc., 144A, 4.875%, 5/15/2026	340,000	341,224
HD Supply, Inc.:		
144A, 5.25%, 12/15/2021	275,000	287,031
144A, 5.75%, 4/15/2024	120,000	124,800
Hertz Corp., 6.75%, 4/15/2019 (b)	305,000	311,376
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	140,000	141,750
Lennar Corp., 4.75%, 11/15/2022	400,000	406,500
Live Nation Entertainment, Inc., 144A, 5.375%, 6/15/2022	50,000	51,375
MDC Partners, Inc., 144A, 6.5%, 5/1/2024	195,000	193,538
Mediacom Broadband LLC:		
5.5%, 4/15/2021	50,000	51,000
6.375%, 4/1/2023	225,000	235,125
MGM Growth Properties Operating Partnership LP, 144A, 5.625%, 5/1/2024	245,000	259,087
NCL Corp., Ltd., 144A, 4.625%, 11/15/2020	235,000	234,558
Neptune Finco Corp.:		
144A, 10.125%, 1/15/2023	400,000	448,000
144A, 10.875%, 10/15/2025	275,000	314,358
Nielsen Finance LLC, 144A, 5.0%, 4/15/2022	155,000	158,100
Numericable-SFR, 144A, 7.375%, 5/1/2026	840,000	830,550
Penske Automotive Group, Inc.:		
5.375%, 12/1/2024	660,000	636,900
5.5%, 5/15/2026	225,000	213,750
Quebecor Media, Inc., 5.75%, 1/15/2023	205,000	208,075
Sabre GLBL, Inc.:		
144A, 5.25%, 11/15/2023	55,000	55,963
144A, 5.375%, 4/15/2023	25,000	25,563
Sally Holdings LLC, 5.625%, 12/1/2025	395,000	413,762
Schaeffler Finance BV, 144A, 4.75%, 5/15/2023	365,000	370,475
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	125,000	125,313
Serta Simmons Bedding LLC, 144A, 8.125%, 10/1/2020	230,000	235,175
Springs Industries, Inc., 6.25%, 6/1/2021	295,000	297,950
Suburban Propane Partners LP, 5.75%, 3/1/2025	145,000	142,463
Toll Brothers Finance Corp., 4.875%, 11/15/2025	270,000	267,300
TRI Pointe Group, Inc., 4.375%, 6/15/2019	145,000	145,725

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	949,725
UPCB Finance IV Ltd., 144A, 5.375%, 1/15/2025	955,000	945,450
Viking Cruises Ltd.:		
144A, 6.25%, 5/15/2025	240,000	181,200
144A, 8.5%, 10/15/2022	205,000	174,763
Virgin Media Secured Finance PLC:		
144A, 5.25%, 1/15/2026	200,000	193,500
144A, 5.5%, 8/15/2026	215,000	209,087
		25,627,635

Consumer Staples 2.3%

	Principal Amount ($)(a)	Value ($)
Cott Beverages, Inc.:		
5.375%, 7/1/2022	445,000	445,000
6.75%, 1/1/2020	180,000	187,650
JBS Investments GmbH, 144A, 7.25%, 4/3/2024 (b)	265,000	272,870
JBS U.S.A. LLC:		
144A, 5.75%, 6/15/2025	290,000	272,600
144A, 8.25%, 2/1/2020	160,000	165,600
Performance Food Group, Inc., 144A, 5.5%, 6/1/2024	120,000	122,100
Pilgrim's Pride Corp., 144A, 5.75%, 3/15/2025	200,000	199,500
Pinnacle Foods Finance LLC, 144A, 5.875%, 1/15/2024	40,000	41,850
Post Holdings, Inc., 144A, 6.75%, 12/1/2021	110,000	116,325
Smithfield Foods, Inc., 6.625%, 8/15/2022	9,000	9,425
The WhiteWave Foods Co., 5.375%, 10/1/2022	370,000	395,900
		2,228,820

Energy 12.2%

	Principal Amount ($)(a)	Value ($)
Antero Resources Corp.:		
5.125%, 12/1/2022	330,000	316,800
5.375%, 11/1/2021	250,000	244,375
5.625%, 6/1/2023 (b)	205,000	198,850
Blue Racer Midstream LLC, 144A, 6.125%, 11/15/2022	405,000	383,737
Carrizo Oil & Gas, Inc., 6.25%, 4/15/2023 (b)	235,000	226,187
Cheniere Corpus Christi Holdings LLC, 144A, 7.0%, 6/30/2024	400,000	410,752
Concho Resources, Inc., 5.5%, 4/1/2023 (b)	530,000	531,325
Continental Resources, Inc.:		
3.8%, 6/1/2024 (b)	200,000	174,500
4.5%, 4/15/2023	200,000	186,500
5.0%, 9/15/2022 (b)	400,000	391,000
Crestwood Midstream Partners LP, 144A, 6.25%, 4/1/2023	305,000	280,600
Freeport-McMoran Oil & Gas LLC:		
6.5%, 11/15/2020	610,000	611,293
6.875%, 2/15/2023	200,000	193,000
Gulfport Energy Corp., 6.625%, 5/1/2023	95,000	93,575
Hilcorp Energy I LP:		
144A, 5.0%, 12/1/2024	195,000	181,818
144A, 5.75%, 10/1/2025	335,000	319,925
Holly Energy Partners LP, 6.5%, 3/1/2020	105,000	105,525
Laredo Petroleum, Inc.:		
5.625%, 1/15/2022	100,000	93,500
6.25%, 3/15/2023 (b)	295,000	280,250
MEG Energy Corp.:		
144A, 6.375%, 1/30/2023	695,000	514,300
144A, 6.5%, 3/15/2021	300,000	232,500
144A, 7.0%, 3/31/2024	70,000	53,900
Memorial Resource Development Corp., 5.875%, 7/1/2022	195,000	194,513
Newfield Exploration Co., 5.375%, 1/1/2026 (b)	155,000	150,738
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	55,000	50,188
6.875%, 3/15/2022	945,000	872,944
6.875%, 1/15/2023	170,000	154,700
Range Resources Corp., 4.875%, 5/15/2025 (b)	390,000	371,475
Rice Energy, Inc., 7.25%, 5/1/2023 (b)	250,000	253,750
RSP Permian, Inc., 6.625%, 10/1/2022	285,000	293,550
Sabine Pass Liquefaction LLC:		
5.625%, 2/1/2021	690,000	696,900
5.625%, 4/15/2023	200,000	200,750
5.625%, 3/1/2025	140,000	139,475
144A, 5.875%, 6/30/2026	355,000	356,331
Sunoco LP:		
144A, 5.5%, 8/1/2020	130,000	128,375
144A, 6.375%, 4/1/2023	140,000	138,950
Tesoro Logistics LP, 6.375%, 5/1/2024 (b)	180,000	188,550
Whiting Petroleum Corp.:		
5.0%, 3/15/2019	330,000	303,600
5.75%, 3/15/2021 (b)	210,000	189,525
6.25%, 4/1/2023 (b)	320,000	286,400
6.5%, 10/1/2018 (b)	250,000	240,000
WPX Energy, Inc.:		
6.0%, 1/15/2022 (b)	100,000	93,000
7.5%, 8/1/2020 (b)	150,000	149,718
8.25%, 8/1/2023	245,000	245,612
		11,723,256

Financials 4.2%

	Principal Amount ($)(a)	Value ($)
AerCap Ireland Capital Ltd.:		
3.95%, 2/1/2022	400,000	400,000
4.625%, 10/30/2020	375,000	388,781
CIT Group, Inc.:		
5.0%, 8/15/2022	400,000	407,000
5.0%, 8/1/2023	200,000	201,500
CNO Financial Group, Inc., 5.25%, 5/30/2025	140,000	144,200
Dana Financing Luxembourg Sarl, 144A, 6.5%, 6/1/2026	385,000	374,894
Equinix, Inc.:		
(REIT), 5.375%, 1/1/2022	225,000	232,313
(REIT), 5.375%, 4/1/2023	725,000	748,562
(REIT), 5.75%, 1/1/2025	170,000	175,950
(REIT), 5.875%, 1/15/2026	135,000	140,653
Lincoln Finance Ltd., 144A, 7.375%, 4/15/2021	105,000	108,675
MPT Operating Partnership LP, (REIT), 6.375%, 3/1/2024	235,000	250,275
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020	265,000	261,025
VEREIT Operating Partnership LP:		
(REIT), 4.125%, 6/1/2021	150,000	156,468
(REIT), 4.875%, 6/1/2026	85,000	87,125
		4,077,421

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

	Principal Amount ($)(a)	Value ($)
Health Care 4.9%		
Alere, Inc., 144A, 6.375%, 7/1/2023	185,000	192,862
Community Health Systems, Inc., 5.125%, 8/1/2021	55,000	54,588
Concordia International Corp., 144A, 7.0%, 4/15/2023	95,000	80,988
Endo Finance LLC, 144A, 5.75%, 1/15/2022	220,000	198,528
Endo Ltd.:		
144A, 6.0%, 7/15/2023	195,000	170,625
144A, 6.0%, 2/1/2025	150,000	130,125
HCA, Inc.:		
5.25%, 6/15/2026	385,000	399,678
5.875%, 2/15/2026	530,000	549,875
Hologic, Inc., 144A, 5.25%, 7/15/2022	90,000	94,050
IMS Health, Inc., 144A, 6.0%, 11/1/2020	250,000	254,375
LifePoint Health, Inc.:		
144A, 5.375%, 5/1/2024 (b)	170,000	170,425
5.5%, 12/1/2021	275,000	286,687
5.875%, 12/1/2023	230,000	239,200
Mallinckrodt International Finance SA:		
144A, 4.875%, 4/15/2020	80,000	77,200
144A, 5.625%, 10/15/2023	135,000	125,719
Tenet Healthcare Corp., 4.153%**, 6/15/2020	180,000	177,750
Valeant Pharmaceuticals International, Inc.:		
144A, 5.375%, 3/15/2020	365,000	311,847
144A, 5.875%, 5/15/2023	235,000	189,763
144A, 6.125%, 4/15/2025	405,000	325,012
144A, 7.5%, 7/15/2021	750,000	661,406
		4,690,703
Industrials 8.2%		
ADT Corp.:		
3.5%, 7/15/2022 (b)	150,000	137,438
6.25%, 10/15/2021	395,000	419,687
Allegion PLC, 5.875%, 9/15/2023	85,000	90,100
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	245,000	215,600
Belden, Inc., 144A, 5.5%, 9/1/2022	355,000	357,662
Bombardier, Inc.:		
144A, 5.75%, 3/15/2022	315,000	267,750
144A, 6.0%, 10/15/2022	265,000	226,575
Covanta Holding Corp., 5.875%, 3/1/2024	220,000	213,400
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	275,000	242,000
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	160,000	148,800
EnerSys, 144A, 5.0%, 4/30/2023	45,000	44,438
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019	155,000	154,225
FTI Consulting, Inc., 6.0%, 11/15/2022	205,000	215,353
Garda World Security Corp., 144A, 7.25%, 11/15/2021	290,000	234,175
Gates Global LLC, 144A, 6.0%, 7/15/2022	190,000	166,250
Manitowoc Foodservice, Inc., 144A, 9.5%, 2/15/2024	93,000	103,928
Masonite International Corp., 144A, 5.625%, 3/15/2023	220,000	228,250
Meritor, Inc.:		
6.25%, 2/15/2024 (b)	215,000	183,825
6.75%, 6/15/2021	300,000	280,500
Moog, Inc., 144A, 5.25%, 12/1/2022	165,000	167,063
OPE KAG Finance Sub, Inc., 144A, 7.875%, 7/31/2023	220,000	216,700
Oshkosh Corp., 5.375%, 3/1/2025	25,000	25,688
Ply Gem Industries, Inc., 6.5%, 2/1/2022 (b)	415,000	406,675
Prime Security Services Borrower LLC, 144A, 9.25%, 5/15/2023	25,000	26,500
SBA Communications Corp., 5.625%, 10/1/2019	200,000	206,500
Summit Materials LLC:		
6.125%, 7/15/2023	275,000	271,045
144A, 8.5%, 4/15/2022	95,000	100,581
Titan International, Inc., 6.875%, 10/1/2020	170,000	143,013
TransDigm, Inc., 144A, 6.375%, 6/15/2026	250,000	249,375
Triumph Group, Inc., 5.25%, 6/1/2022	130,000	119,600
United Rentals North America, Inc.:		
6.125%, 6/15/2023	25,000	26,031
7.625%, 4/15/2022	595,000	635,162
WESCO Distribution, Inc., 144A, 5.375%, 6/15/2024	190,000	190,000
XPO Logistics, Inc., 144A, 6.5%, 6/15/2022 (b)	230,000	219,362
ZF North America Capital, Inc.:		
144A, 4.5%, 4/29/2022	510,000	517,012
144A, 4.75%, 4/29/2025	410,000	415,379
		7,865,642
Information Technology 3.9%		
Cardtronics, Inc., 5.125%, 8/1/2022	145,000	143,550
CDW LLC:		
5.5%, 12/1/2024 (b)	330,000	340,725
6.0%, 8/15/2022	370,000	386,650
Diamond 1 Finance Corp., 144A, 5.875%, 6/15/2021 (b)	150,000	152,966
EarthLink Holdings Corp., 7.375%, 6/1/2020	245,000	254,800
Entegris, Inc., 144A, 6.0%, 4/1/2022	160,000	163,800
First Data Corp., 144A, 7.0%, 12/1/2023 (b)	275,000	278,438
Match Group, Inc., 144A, 6.375%, 6/1/2024	120,000	124,800
Micron Technology, Inc.:		
144A, 5.25%, 8/1/2023	250,000	213,125
144A, 7.5%, 9/15/2023 (b)	390,000	414,375
NXP BV:		
144A, 4.125%, 6/1/2021	200,000	203,000
144A, 4.625%, 6/1/2023	395,000	401,912
Riverbed Technology, Inc., 144A, 8.875%, 3/1/2023	155,000	160,425
Western Digital Corp.:		
144A, 7.375%, 4/1/2023	350,000	372,750
144A, 10.5%, 4/1/2024 (b)	168,000	179,760
		3,791,076
Materials 12.7%		
AK Steel Corp.:		
7.5%, 7/15/2023	200,000	203,000
7.625%, 5/15/2020	320,000	305,600

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

		Principal Amount ($)(a)	Value ($)
Ardagh Packaging Finance PLC:			
144A, 4.625%, 5/15/2023		215,000	211,775
144A, 7.25%, 5/15/2024		290,000	295,981
Ball Corp.:			
4.375%, 12/15/2020 (b)		110,000	115,706
5.25%, 7/1/2025		225,000	234,563
Berry Plastics Corp., 5.5%, 5/15/2022		435,000	445,331
Cascades, Inc., 144A, 5.5%, 7/15/2022		145,000	140,831
Chemours Co.:			
6.625%, 5/15/2023 (b)		365,000	310,250
7.0%, 5/15/2025 (b)		80,000	67,100
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025 (b)		195,000	195,000
Constellium NV:			
144A, 4.625%, 5/15/2021	EUR	150,000	130,848
144A, 5.75%, 5/15/2024		250,000	196,875
144A, 7.875%, 4/1/2021 (b)		500,000	515,625
Coveris Holding Corp., 144A, 10.0%, 6/1/2018		230,000	230,000
Coveris Holdings SA, 144A, 7.875%, 11/1/2019		330,000	320,512
First Quantum Minerals Ltd.:			
144A, 6.75%, 2/15/2020		36,000	30,060
144A, 7.0%, 2/15/2021		475,000	381,781
Freeport-McMoRan, Inc.:			
2.375%, 3/15/2018		890,000	872,200
4.0%, 11/14/2021		250,000	225,859
4.55%, 11/14/2024		100,000	87,500
Hexion, Inc., 6.625%, 4/15/2020		270,000	225,801
Kaiser Aluminum Corp., 144A, 5.875%, 5/15/2024		200,000	205,500
Perstorp Holding AB, 144A, 8.75%, 5/15/2017		455,000	455,000
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021		250,000	255,000
Platform Specialty Products Corp.:			
144A, 6.5%, 2/1/2022 (b)		230,000	201,250
144A, 10.375%, 5/1/2021 (b)		350,000	352,625
Reynolds Group Issuer, Inc.:			
144A, 5.125%, 7/15/2023		235,000	237,938
5.75%, 10/15/2020		1,390,000	1,435,175
144A, 7.0%, 7/15/2024		45,000	46,328
Sealed Air Corp.:			
144A, 4.875%, 12/1/2022		115,000	118,306
144A, 5.125%, 12/1/2024		55,000	56,444
Teck Resources Ltd.:			
4.5%, 1/15/2021		700,000	609,000
144A, 8.0%, 6/1/2021		805,000	829,150
144A, 8.5%, 6/1/2024		130,000	134,875
Tronox Finance LLC:			
6.375%, 8/15/2020		500,000	371,250
144A, 7.5%, 3/15/2022		245,000	176,400
United States Steel Corp., 144A, 8.375%, 7/1/2021 (b)		810,000	850,500
WR Grace & Co-Conn:			
144A, 5.125%, 10/1/2021		90,000	92,475
144A, 5.625%, 10/1/2024		45,000	46,125
			12,215,539

Telecommunication Services 13.5%

	Principal Amount ($)(a)	Value ($)
CenturyLink, Inc.:		
Series V, 5.625%, 4/1/2020 (b)	305,000	316,437
Series T, 5.8%, 3/15/2022	380,000	368,957
Series S, 6.45%, 6/15/2021	545,000	553,856
Series W, 6.75%, 12/1/2023	250,000	245,625
Series Y, 7.5%, 4/1/2024 (b)	635,000	640,556
CyrusOne LP, 6.375%, 11/15/2022	310,000	322,400
Digicel Group Ltd.:		
144A, 7.125%, 4/1/2022	265,000	197,094
144A, 8.25%, 9/30/2020	760,000	634,600
Digicel Ltd.:		
144A, 6.75%, 3/1/2023	390,000	331,500
144A, 7.0%, 2/15/2020	200,000	185,000
Frontier Communications Corp.:		
6.25%, 9/15/2021	540,000	509,091
7.125%, 1/15/2023	605,000	541,475
10.5%, 9/15/2022	615,000	650,747
11.0%, 9/15/2025	430,000	445,050
Hughes Satellite Systems Corp., 7.625%, 6/15/2021	230,000	247,509
Intelsat Jackson Holdings SA, 144A, 8.0%, 2/15/2024 (b)	452,000	445,220
Level 3 Financing, Inc.:		
144A, 5.25%, 3/15/2026	175,000	171,500
5.375%, 8/15/2022	675,000	681,750
5.375%, 1/15/2024	165,000	165,619
5.375%, 5/1/2025	200,000	198,500
Sprint Communications, Inc.:		
144A, 7.0%, 3/1/2020 (b)	745,000	780,008
7.0%, 8/15/2020	350,000	311,500
Sprint Corp., 7.125%, 6/15/2024	1,345,000	1,072,637
T-Mobile U.S.A., Inc.:		
6.0%, 4/15/2024	899,000	930,465
6.125%, 1/15/2022	110,000	115,363
6.375%, 3/1/2025	497,000	519,365
6.5%, 1/15/2026 (b)	15,000	15,825
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	195,000	200,363
Windstream Services LLC, 7.75%, 10/15/2020 (b)	335,000	328,300
Zayo Group LLC:		
6.0%, 4/1/2023	530,000	537,950
6.375%, 5/15/2025	386,000	393,720
		13,057,982

Utilities 4.3%

	Principal Amount ($)(a)	Value ($)
Calpine Corp.:		
5.375%, 1/15/2023	240,000	234,000
5.75%, 1/15/2025 (b)	240,000	233,400
Dynegy, Inc.:		
7.375%, 11/1/2022	235,000	226,775
7.625%, 11/1/2024	425,000	408,000
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024*	550,000	275,000
GenOn Americas Generation LLC, 8.5%, 10/1/2021	250,000	198,750
GenOn Energy, Inc., 7.875%, 6/15/2017	100,000	84,000
NGL Energy Partners LP, 5.125%, 7/15/2019 (b)	190,000	172,900
NRG Energy, Inc.:		
6.25%, 7/15/2022 (b)	1,000,000	970,000
6.25%, 5/1/2024 (b)	770,000	732,948
144A, 7.25%, 5/15/2026 (b)	385,000	383,075
7.875%, 5/15/2021	132,000	136,620
Talen Energy Supply LLC, 144A, 4.625%, 7/15/2019	95,000	83,600
		4,139,068
Total Corporate Bonds (Cost $90,262,969)		**89,417,142**

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

	Principal Amount ($)(a)	Value ($)
Government & Agency Obligation 1.1%		
U.S. Treasury Obligation		
U.S. Treasury Note, 1.0%, 8/31/2016 (c) (Cost $1,100,934)	1,100,000	**1,101,274**
Loan Participations and Assignments 0.2%		
Senior Loans**		
Alliance Mortgage Cycle Loan, Term Loan A, 9.5%, 6/15/2010*	700,000	0
MEG Energy Corp., Term Loan, 3.75%, 3/31/2020	249,348	220,272
Total Loan Participations and Assignments (Cost $923,805)		**220,272**
Convertible Bonds 1.9%		
Energy 0.5%		
Chesapeake Energy Corp.:		
2.25%, 12/15/2038	350,000	281,750
2.5%, 5/15/2037	155,000	142,988
		424,738
Materials 1.4%		
GEO Specialty Chemicals, Inc., 144A, 7.5% Cash, 7.5% PIK, 10/30/2018	1,373,292	**1,386,695**
Total Convertible Bonds (Cost $1,683,257)		**1,811,433**
Preferred Security 1.0%		
Materials		
Hercules, Inc., 6.5%, 6/30/2029 (Cost $791,721)	1,135,000	**933,538**

	Shares	Value ($)
Common Stocks 0.1%		
Consumer Discretionary 0.0%		
Dawn Holdings, Inc.* (d)	15	**31,531**
Industrials 0.0%		
Congoleum Corp.*	24,000	0
Quad Graphics, Inc.	237	5,520
		5,520
Materials 0.1%		
GEO Specialty Chemicals, Inc.*	144,027	52,210
GEO Specialty Chemicals, Inc. 144A*	2,206	799
		53,009
Total Common Stocks (Cost $345,503)		**90,060**
Warrant 0.0%		
Materials		
Hercules Trust II, Expiration Date 3/31/2029* (Cost $244,286)	1,100	**2,787**
Securities Lending Collateral 15.7%		
Daily Assets Fund "Capital Shares", 0.51% (e) (f) (Cost $15,142,537)	15,142,537	**15,142,537**
Cash Equivalents 1.2%		
Deutsche Central Cash Management Government Fund, 0.44% (e) (Cost $1,103,719)	1,103,719	**1,103,719**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $111,598,731)†	114.0	**109,822,762**
Other Assets and Liabilities, Net	(14.0)	**(13,505,110)**
Net Assets	100.0	**96,317,652**

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	346,760	275,000
					1,046,760	**275,000**

* 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, 2016.

† The cost for federal income tax purposes was $111,598,731. At June 30, 2016, net unrealized depreciation for all securities based on tax cost was $1,775,969. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,128,446 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,904,415.

(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, 2016 amounted to $14,636,042, which is 15.2% of net assets.

(c) At June 30, 2016, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(d) The Fund may purchase securities that are subject to legal or contractual restrictions on resale ("restricted securities"). Restricted securities are securities which have not been registered with the Securities and Exchange Commission under the Securities Act of 1933. The Fund may be unable to sell a restricted security and it may be more difficult to determine a market value for a restricted security. Moreover, if adverse market conditions were to develop during the period between the Fund's decision to sell a restricted security and the point at which the Fund is permitted or able to sell such security, the Fund might obtain a price less favorable than the price that prevailed when it decided to sell. This investment practice, therefore, could have the effect of increasing the level of illiquidity of the Fund. The future value of these securities is uncertain and there may be changes in the estimated value of these securities.

Schedule of Restricted Securities	Acquisition Date	Cost ($)	Value ($)	Value as % of Net Assets
Dawn Holdings, Inc.*	August 2013	53,353	31,531	0.03

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

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

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

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

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

REIT: Real Estate Investment Trust

At June 30, 2016, open credit default swap contracts sold were as follows:

Bilateral Swaps

Expiration Dates	Notional Amount ($) (g)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (h)	Value ($)	Upfront Payments Paid ($)	Unrealized Depreciation ($)
12/20/2019	630,000[1]	5.0%	Community Health Systems, Inc., 8.0%, 11/15/2019, B–	(20,782)	29,448	(50,230)
3/20/2019	1,500,000[2]	5.0%	Sprint Communications, Inc., 6.0%, 12/1/2016, B	(67,494)	84,590	(152,084)
Total unrealized depreciation						**(202,314)**

(g) The maximum potential amount of future undiscounted payments that the Fund could be required to make under a credit default swap contract would be the notional amount of the contract. These potential amounts would be partially offset by any recovery values of the referenced debt obligation or net amounts received from the settlement of buy protection credit default swap contracts entered into by the Fund for the same referenced debt obligation, if any.

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

Counterparties:

1 Morgan Stanley

2 Goldman Sachs & Co.

As of June 30, 2016, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
EUR	117,000	USD	133,578	7/14/2016	**3,672**	Citigroup, Inc.

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
EUR	13,004	USD	14,291	7/29/2016	**(156)**	Bank of America

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, 2016 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed Income Investments (i)				
Corporate Bonds	$ —	$ 89,417,142	$ —	$ 89,417,142
Government & Agency Obligation	—	1,101,274	—	1,101,274
Loan Participations and Assignments	—	220,272	0	220,272
Convertible Bonds	—	424,738	1,386,695	1,811,433
Preferred Security	—	933,538	—	933,538
Common Stocks (i)	5,520	—	84,540	90,060
Warrant	—	—	2,787	2,787
Short-Term Investments (i)	16,246,256	—	—	16,246,256
Derivatives (j)				
Forward Foreign Currency Exchange Contracts	—	3,672	—	3,672
Total	**$ 16,251,776**	**$ 92,100,636**	**$ 1,474,022**	**$109,826,434**

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

Liabilities		Level 1		Level 2		Level 3		Total
Derivatives (j)								
Credit Default Swap Contracts	$	—	$	(202,314)	$	—	$	(202,314)
Forward Foreign Currency Exchange Contracts		—		(156)		—		(156)
Total	**$**	**—**	**$**	**(202,470)**	**$**	**—**	**$**	**(202,470)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(i) See Investment Portfolio for additional detailed categorizations.

(j) Derivatives include unrealized appreciation (depreciation) on credit default swap contracts and forward foreign currency exchange contracts.

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Loan Participations and Assignments	Convertible Bonds	Common Stocks	Warrants	Total
Balance as of December 31, 2015	$ 0	$ 1,551,885	$ 93,597	$ 1,879	**$ 1,647,361**
Realized gains (loss)	—	—	—	—	**—**
Change in unrealized appreciation (depreciation)	—	(219,726)	(9,057)	908	**(227,875)**
Amortization of premium/accretion of discount	—	4,181	—	—	**4,181**
Purchases	—	50,355	—	—	**50,355**
(Sales)	—	—	—	—	—
Transfer into Level 3	—	—	—	—	—
Transfer (out) of Level 3	—	—	—	—	—
Balance as of June 30, 2016	**$ 0**	**$ 1,386,695**	**$ 84,540**	**$ 2,787**	**$ 1,474,022**
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2016	**$ —**	**$ (219,726)**	**$ (9,057)**	**$ 908**	**$ (227,875)**

Quantitative Disclosure About Significant Unobservable Inputs

Asset Class	Fair Value at 6/30/16	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Common Stocks				
Consumer Discretionary	$31,531	Market Approach	EV/EBITDA Multiple	8.50
			Discount to public comparables	15%
			Discount for lack of marketability	15%
Industrials	$0	Asset Valuation	Book Value of Equity	0%
Materials	$53,009	Market Approach	EV/EBITDA Multiple	5.66
			Discount to public comparables	20%
			Discount for lack of marketability	15%
Warrants				
Materials	$2,787	Black Scholes Option Pricing Model	Implied Volatility	24.6%
			Illiquidity Discount	20%
Loan Participations & Assignments				
Senior Loans	$0	Market Approach	Evaluated Price	0
Convertible Bonds				
Materials	$1,386,695	Discounted Cash Flow & Black Scholes Option Pricing Model Methodology	Discount Rate	13.12%
			Illiquidity Discount	20%
			Implied Volatility of Conversion Option	23.41%

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 discount rate used to calculate the net present value of the future cash flows. A significant change in the discount rate could have a material impact to the fair value measurement. Generally, there is an indirect relationship between the fair valuation of a fixed income security and discount rate.

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

Statement of Assets and Liabilities

as of June 30, 2016 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $95,352,475) — including $14,636,042 of securities loaned	$	93,576,506
Investment in Daily Assets Fund (cost $15,142,537)*		15,142,537
Investment in Deutsche Central Cash Management Government Fund (cost $1,103,719)		1,103,719
Total investments in securities, at value (cost $111,598,731)		109,822,762
Foreign currency, at value (cost $4,726)		4,751
Receivable for investments sold		787,865
Receivable for Fund shares sold		3,283
Interest receivable		1,375,555
Unrealized appreciation on forward foreign currency exchange contracts		3,672
Upfront payments paid on bilateral swap contracts		114,038
Other assets		691
Total assets		112,112,617
Liabilities		
Payable upon return of securities loaned		15,142,537
Payable for investments purchased		223,938
Payable for Fund shares redeemed		54,808
Unrealized depreciation on bilateral swap contracts		202,314
Unrealized depreciation on forward foreign currency exchange contracts		156
Accrued management fee		35,677
Accrued Trustees' fees		1,111
Other accrued expenses and payables		134,424
Total liabilities		15,794,965
Net assets, at value	**$**	**96,317,652**
Net Assets Consist of		
Undistributed net investment income		3,161,935
Net unrealized appreciation (depreciation) on:		
Investments		(1,775,969)
Swap contracts		(202,314)
Foreign currency		3,528
Accumulated net realized gain (loss)		(44,504,424)
Paid-in capital		139,634,896
Net assets, at value	**$**	**96,317,652**
Class A		
Net Asset Value, offering and redemption price per share ($96,167,123 ÷ 16,342,512 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**5.88**
Class B		
Net Asset Value, offering and redemption price per share ($150,529 ÷ 25,496 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**5.90**

* 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, 2016 (Unaudited)

Investment Income	
Interest	$ 3,091,624
Dividends	138
Income distributions — Deutsche Central Cash Management Government Fund	7,351
Securities lending income, including income from Daily Assets Fund, net of borrower rebates	29,897
Total income	3,129,010
Expenses:	
Management fee	249,097
Administration fee	49,819
Distribution service fee (Class B)	1,770
Recordkeeping fees (Class B)	1,027
Services to shareholders	760
Custodian fee	11,368
Professional fees	46,312
Reports to shareholders	17,416
Trustees' fees and expenses	3,500
Other	20,472
Total expenses before expense reductions	401,541
Expense reductions	(40,787)
Total expenses after expense reductions	360,754
Net investment income (loss)	**2,768,256**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(3,226,800)
Swap contracts	(123,300)
Foreign currency	261
	(3,349,839)
Change in net unrealized appreciation (depreciation) on:	
Investments	5,806,502
Swap contracts	355,126
Foreign currency	3,528
	6,165,156
Net gain (loss)	**2,815,317**
Net increase (decrease) in net assets resulting from operations	**$ 5,583,573**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income	$ 2,768,256	$ 6,638,151
Net realized gain (loss)	(3,349,839)	(4,223,311)
Change in net unrealized appreciation (depreciation)	6,165,156	(7,046,460)
Net increase (decrease) in net assets resulting from operations	5,583,573	(4,631,620)
Distributions to shareholders from:		
Net investment income:		
Class A	(6,259,405)	(8,457,661)
Class B	(122,558)	(6,469)
Total distributions	(6,381,963)	(8,464,130)
Fund share transactions:		
Class A		
Proceeds from shares sold	7,624,858	17,956,787
Reinvestment of distributions	6,259,405	8,457,661
Payments for shares redeemed	(17,943,075)	(47,358,324)
Net increase (decrease) in net assets from Class A share transactions	(4,058,812)	(20,943,876)
Class B		
Proceeds from shares sold	4,318,693	29,829,991
Reinvestment of distributions	122,558	6,469
Payments for shares redeemed	(7,417,173)	(26,867,647)
Net increase (decrease) in net assets from Class B share transactions	(2,975,922)	2,968,813
Increase (decrease) in net assets	(7,833,124)	(31,070,813)
Net assets at beginning of period	104,150,776	135,221,589
Net assets at end of period (including undistributed net investment income of $3,161,935 and $6,775,642, respectively)	**$ 96,317,652**	**104,150,776**

Other Information		
Class A		
Shares outstanding at beginning of period	17,025,372	20,495,541
Shares sold	1,304,361	2,794,697
Shares issued to shareholders in reinvestment of distributions	1,081,072	1,315,344
Shares redeemed	(3,068,293)	(7,580,210)
Net increase (decrease) in Class A shares	(682,860)	(3,470,169)
Shares outstanding at end of period	**16,342,512**	**17,025,372**
Class B		
Shares outstanding at beginning of period	530,185	3,764
Shares sold	741,407	4,790,954
Shares issued to shareholders in reinvestment of distributions	21,094	998
Shares redeemed	(1,267,190)	(4,265,531)
Net increase (decrease) in Class B shares	(504,689)	526,421
Shares outstanding at end of period	**25,496**	**530,185**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$ 5.93**	**$ 6.60**	**$ 6.96**	**$ 6.93**	**$ 6.56**	**$ 6.90**
Income (loss) from investment operations:						
Net investment income[a]	.16	.32	.36	.39	.45	.51
Net realized and unrealized gain (loss)	.17	(.58)	(.25)	.14	.48	(.24)
Total from investment operations	.33	(.26)	.11	.53	.93	.27
Less distributions from:						
Net investment income	(.38)	(.41)	(.47)	(.50)	(.56)	(.61)
Net asset value, end of period	**$ 5.88**	**$ 5.93**	**$ 6.60**	**$ 6.96**	**$ 6.93**	**$ 6.56**
Total Return (%)	5.68[b]**	(4.44)[b]	1.47[b]	7.91[b]	14.91	3.84
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	96	101	135	165	178	169
Ratio of expenses before expense reductions (%)	.80*	.75	.75	.73	.72	.72
Ratio of expenses after expense reductions (%)	.72*	.72	.73	.72	.72	.72
Ratio of net investment income (%)	5.56*	5.09	5.21	5.69	6.68	7.59
Portfolio turnover rate (%)	44**	47	52	58	58	59

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 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$ 5.94**	**$ 6.63**	**$ 6.99**	**$ 6.97**	**$ 6.59**	**$ 6.93**
Income (loss) from investment operations:						
Net investment income[a]	.16	.32	.35	.36	.43	.49
Net realized and unrealized gain (loss)	.16	(.61)	(.26)	.15	.49	(.24)
Total from investment operations	.32	(.29)	.09	.51	.92	.25
Less distributions from:						
Net investment income	(.36)	(.40)	(.45)	(.49)	(.54)	(.59)
Net asset value, end of period	**$ 5.90**	**$ 5.94**	**$ 6.63**	**$ 6.99**	**$ 6.97**	**$ 6.59**
Total Return (%)	5.52[b]**	(4.95)[b]	1.22[b]	7.44[b]	14.70[b]	3.57
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.2	3	.03	.32	.09	.09
Ratio of expenses before expense reductions (%)	1.20*	1.14	1.13	1.10	.99	.99
Ratio of expenses after expense reductions (%)	.98*	1.02	.97	.97	.99	.99
Ratio of net investment income (%)	5.25*	4.86	5.09	5.29	6.42	7.33
Portfolio turnover rate (%)	44**	47	52	58	58	59

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 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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as corporate bonds in the Investment Portfolio. 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. If affiliates of the Advisor participate in the primary and secondary market for senior loans, legal limitations may restrict the Fund's ability to participate in restructuring or acquiring some senior loans. 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, 2015, the Fund had a net tax basis capital loss carryforward of approximately $41,155,000, including $34,532,000 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 ($17,300,000) and December 31, 2017 ($17,232,000), the respective expiration dates, whichever occurs first; and approximately $6,623,000 of post-enactment long-term losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($1,905,000) and long-term losses ($4,718,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the Fund's investment in credit default swap contracts sold had a total notional value generally indicative of a range from approximately $2,130,000 to $9,570,000.

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, 2016, the Fund entered into forward currency contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated portfolio holdings and to facilitate transactions in foreign currency denominated securities. Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

A summary of the open forward currency contracts as of June 30, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, 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 $148,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2016 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	**Forward Contracts**
Foreign Exchange Contracts (a)	$ 3,672

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

(a) Unrealized appreciation on foreign forward currency exchange contracts

Liability Derivatives	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ (202,314)	$ (202,314)
Foreign Exchange Contracts (b)	(156)	—	(156)
	$ (156)	**$ (202,314)**	**$ (202,470)**

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

(a) Unrealized depreciation on bilateral swap contracts

(b) Unrealized depreciation on foreign forward 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, 2016 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ (123,300)	$ (123,300)
Foreign Exchange Contracts (b)	2,254	—	2,254
	$ 2,254	**$ (123,300)**	**$ (121,046)**

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

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

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

Change in Net Unrealized Appreciation (Depreciation)	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ 355,126	$ 355,126
Foreign Exchange Contracts (b)	3,516	—	3,516
	$ 3,516	**$ 355,126**	**$ 358,642**

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

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

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

As of June 30, 2016, 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
Citigroup, Inc.	$ 3,672	$ —	$ —	$ 3,672

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
Bank of America	$ 156	$ —	$ —	$ 156
Goldman Sachs & Co.	152,084	—	—	152,084
Morgan Stanley	50,230	—	—	50,230
	$ 202,470	**$ —**	**$ —**	**$ 202,470**

C. Purchases and Sales of Securities

During the six months ended June 30, 2016, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury securities) aggregated $42,055,288 and $49,677,005, respectively. Purchases and sales of U.S. Treasury obligations aggregated $0 and $194,195, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Fund.

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

First $250 million	.500%
Next $750 million	.470%
Next $1.5 billion	.450%
Next $2.5 billion	.430%
Next $2.5 billion	.400%
Next $2.5 billion	.380%
Next $2.5 billion	.360%
Over $12.5 billion	.340%

Accordingly, for the six months ended June 30, 2016, 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, 2016 through April 30, 2017, 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	.98%

For the six months ended June 30, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$	39,257
Class B		1,530
	$	**40,787**

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, 2016, the Administration Fee was $49,819, of which $8,391 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders		Total Aggregated		Unpaid at June 30, 2016
Class A	$	151	$	77
Class B		35		18
	$	**186**	**$**	**95**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, Deutsche AM 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, 2016, the Distribution Service Fee was $1,770, of which $301 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $6,538, of which $5,995 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $2,623.

E. Investing in High-Yield Debt Securities

High-yield debt securities or junk bonds are generally regarded as speculative with respect to the issuer's continuing ability to meet principal and interest payments. The Fund's performance could be hurt if an issuer of a debt security suffers an adverse change in financial condition that results in the issuer not making timely payments of interest or principal, a security downgrade or an inability to meet a financial obligation. High-yield debt securities' total return and yield may generally be expected to fluctuate more than the total return and yield of investment-grade debt securities. A real or perceived economic downturn or an increase in market interest rates could cause a decline in the value of high-yield debt securities, result in increased redemptions and/or result in increased portfolio turnover, which could result in a decline in net asset value of the fund, reduce liquidity for certain investments and/or increase costs. High-yield debt securities are often thinly traded and can be more difficult to sell and value accurately than investment-grade debt securities as there may be no established secondary market. Investments in high yield debt securities could increase liquidity risk for the fund. In addition, the market for high-yield debt securities can experience sudden and sharp volatility which is generally associated more with investments in stocks.

F. Ownership of the Fund

At June 30, 2016, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 55% and 30%. Three participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 10%, 30% and 60%.

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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,056.80	$1,055.20
Expenses Paid per $1,000*	$ 3.68	$ 5.01
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,021.28	$1,019.99
Expenses Paid per $1,000*	$ 3.62	$ 4.92

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche High Income VIP	.72%	.98%

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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 3rd quartile, 3rd quartile and 2nd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has

outperformed its benchmark in the three-year period and has underperformed its benchmark in the one- and five-year periods ended December 31, 2014.

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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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 Management

VS2HI-3 (R-028385-5 8/16)

Deutsche
Asset Management

June 30, 2016

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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

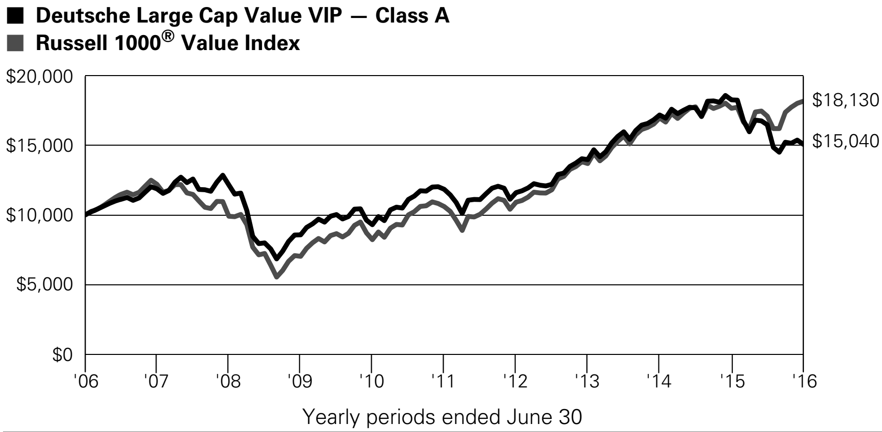
Performance Summary

June 30, 2016 (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, 2016 are 0.78% and 1.10% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment in Deutsche 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	$9,151	$8,250	$10,786	$12,723	$15,040
	Average annual total return	–8.49%	–17.50%	2.56%	4.93%	4.17%
Russell 1000® Value Index	Growth of $10,000	$10,630	$10,286	$13,262	$17,119	$18,130
	Average annual total return	6.30%	2.86%	9.87%	11.35%	6.13%

Deutsche Large Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,136	$8,228	$10,691	$12,527	$14,557
	Average annual total return	–8.64%	–17.72%	2.25%	4.61%	3.83%
Russell 1000® Value Index	Growth of $10,000	$10,630	$10,286	$13,262	$17,119	$18,130
	Average annual total return	6.30%	2.86%	9.87%	11.35%	6.13%

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)	**6/30/16**	**12/31/15**
Common Stocks	98%	99%
Cash Equivalents	1%	1%
Master Limited Partnership	1%	—
	100%	100%

Sector Diversification (As a % of Common Stocks and Master Limited Partnership)	**6/30/16**	**12/31/15**
Financials	23%	17%
Energy	15%	9%
Health Care	14%	31%
Industrials	14%	8%
Consumer Staples	10%	8%
Consumer Discretionary	9%	16%
Information Technology	8%	6%
Utilities	5%	4%
Materials	2%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Effective August 3. 2016, the following individuals manage the fund:

Walter R. Holman, CFA
Brendan O'Neill, CFA
Portfolio Managers

Investment Portfolio

June 30, 2016 (Unaudited)

	Shares	Value ($)
Common Stocks 96.9%		
Consumer Discretionary 8.9%		
Hotels, Restaurants & Leisure 1.1%		
Del Taco Restaurants, Inc.*	201,438	1,833,086
Yum! Brands, Inc.	8,641	716,512
		2,549,598
Household Durables 2.1%		
Mohawk Industries, Inc.*	22,322	4,235,823
Newell Brands, Inc.	18,063	877,320
		5,113,143
Media 1.6%		
Viacom, Inc. "B"	91,267	**3,784,842**
Multiline Retail 1.4%		
Target Corp.	48,800	**3,407,216**
Specialty Retail 2.7%		
Home Depot, Inc.	18,062	2,306,337
The Michaels Companies, Inc.*	145,749	4,145,101
		6,451,438
Consumer Staples 9.7%		
Beverages 2.2%		
Constellation Brands, Inc. "A"	21,067	3,484,482
Dr. Pepper Snapple Group, Inc. (a)	17,947	1,734,218
		5,218,700
Food Products 3.3%		
Archer-Daniels-Midland Co.	80,537	3,454,232
McCormick & Co., Inc. (a)	34,667	3,697,929
The WhiteWave Foods Co.*	15,870	744,938
		7,897,099
Household Products 2.4%		
Colgate-Palmolive Co.	49,582	3,629,402
Kimberly-Clark Corp.	14,558	2,001,434
		5,630,836
Tobacco 1.8%		
Reynolds American, Inc.	79,945	**4,311,434**
Energy 14.6%		
Energy Equipment & Services 4.5%		
Ensco PLC "A"	240,188	2,332,225
Halliburton Co.	68,100	3,084,249
Helmerich & Payne, Inc. (a)	44,800	3,007,424
Noble Corp. PLC	129,100	1,063,784
Schlumberger Ltd.	15,600	1,233,648
		10,721,330
Oil, Gas & Consumable Fuels 9.6%		
Chevron Corp.	23,890	2,504,389
EOG Resources, Inc. (a)	11,802	984,523
Exxon Mobil Corp.	60,402	5,662,083
Hess Corp.	54,548	3,278,335
Occidental Petroleum Corp.	19,500	1,473,420
Pioneer Natural Resources Co. (a)	4,410	666,836
Tesoro Corp.	57,210	4,286,173
Valero Energy Corp.	78,510	4,004,010
		22,859,769
Financials 21.9%		
Banks 11.0%		
Bank of America Corp.	73,569	976,261
Citigroup, Inc.	116,430	4,935,468
JPMorgan Chase & Co.	136,545	8,484,906
PNC Financial Services Group, Inc.	48,900	3,979,971
SunTrust Banks, Inc.	113,810	4,675,315
Wells Fargo & Co.	68,500	3,242,105
		26,294,026
Capital Markets 4.4%		
Affiliated Managers Group, Inc.* (a)	34,058	4,794,344
The Goldman Sachs Group, Inc.	37,715	5,603,695
		10,398,039
Insurance 2.6%		
Allstate Corp.	39,700	2,777,015
Hartford Financial Services Group, Inc.	79,593	3,532,337
		6,309,352
Real Estate Investment Trusts 3.9%		
AvalonBay Communities, Inc. (REIT)	7,437	1,341,560
Prologis, Inc. (REIT)	82,072	4,024,811
Simon Property Group, Inc. (REIT)	17,600	3,817,440
		9,183,811
Health Care 13.7%		
Biotechnology 6.5%		
Alexion Pharmaceuticals, Inc.*	26,884	3,138,976
Celgene Corp.*	49,354	4,867,785
Gilead Sciences, Inc.	30,756	2,565,665
Puma Biotechnology, Inc.* (a)	98,126	2,923,174
Sarepta Therapeutics, Inc.* (a)	109,309	2,084,523
		15,580,123
Health Care Providers & Services 4.1%		
Cigna Corp.	76,323	**9,768,581**
Pharmaceuticals 3.1%		
Bristol-Myers Squibb Co.	55,868	4,109,091
Valeant Pharmaceuticals International, Inc.*	157,500	3,172,050
		7,281,141
Industrials 13.6%		
Aerospace & Defense 4.6%		
Lockheed Martin Corp.	7,973	1,978,659
Northrop Grumman Corp.	9,051	2,011,856
Raytheon Co.	14,546	1,977,529
United Technologies Corp.	47,900	4,912,145
		10,880,189
Building Products 0.6%		
A.O. Smith Corp.	16,230	**1,430,025**
Construction & Engineering 1.0%		
Jacobs Engineering Group, Inc.*	47,366	**2,359,301**
Industrial Conglomerates 1.4%		
Danaher Corp.	34,000	**3,434,000**
Machinery 4.2%		
IDEX Corp.	28,800	2,364,480
Ingersoll-Rand PLC	49,900	3,177,632
Stanley Black & Decker, Inc.	27,100	3,014,062
Wabtec Corp. (a)	21,299	1,495,829
		10,052,003
Trading Companies & Distributors 1.8%		
Beacon Roofing Supply, Inc.*	70,576	3,209,091
W.W. Grainger, Inc. (a)	5,300	1,204,425
		4,413,516

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

	Shares	Value ($)
Information Technology 7.9%		
Communications Equipment 1.0%		
CommScope Holding Co., Inc.*	81,059	**2,515,261**
IT Services 1.3%		
CSRA, Inc.	130,081	**3,047,798**
Semiconductors & Semiconductor Equipment 2.4%		
Analog Devices, Inc.	21,000	1,189,440
Applied Materials, Inc.	95,517	2,289,542
Microchip Technology, Inc. (a)	24,500	1,243,620
Micron Technology, Inc.*	5,009	68,924
NXP Semiconductors NV*	13,300	1,041,922
		5,833,448
Software 2.0%		
Autodesk, Inc.*	61,600	3,335,024
Microsoft Corp.	26,522	1,357,131
		4,692,155
Technology Hardware, Storage & Peripherals 1.2%		
Western Digital Corp.	60,100	**2,840,326**
Materials 1.9%		
Chemicals		
Scotts Miracle-Gro Co. "A"	64,200	**4,488,222**
Utilities 5.2%		
Electric Utilities 2.4%		
NextEra Energy, Inc.	43,200	**5,633,280**
Multi-Utilities 2.8%		
Dominion Resources, Inc. (a)	63,426	4,942,788
WEC Energy Group, Inc.	27,666	1,806,590
		6,749,378
Total Common Stocks (Cost $233,395,997)		**231,129,380**

	Shares	Value ($)
Master Limited Partnership 0.5%		
Oil, Gas & Consumable Fuels		
Enterprise Products Partners LP (Cost $ 1,221,891)	41,900	**1,225,994**
Securities Lending Collateral 9.5%		
Daily Assets Fund "Capital Shares", 0.51% (b) (c) (Cost $22,610,159)	22,610,159	**22,610,159**
Cash Equivalents 1.3%		
Deutsche Central Cash Management Government Fund, 0.44% (b) (Cost $2,981,724)	2,981,724	**2,981,724**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $260,209,771)†	108.2	**257,947,257**
Other Assets and Liabilities, Net	(8.2)	**(19,452,804)**
Net Assets	100.0	**238,494,453**

* Non-income producing security.

† The cost for federal income tax purposes was $262,643,002. At June 30, 2016, net unrealized depreciation for all securities based on tax cost was $4,695,745. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $14,031,054 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $18,726,799.

(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, 2016 amounted to $22,396,962, which is 9.4% of net assets.

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

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

REIT: Real Estate Investment Trust

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2016 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)	$231,129,380	$ —	$ —	$231,129,380
Master Limited Partnership	1,225,994	—	—	1,225,994
Short-Term Investments (d)	25,591,883	—	—	25,591,883
Total	**$257,947,257**	**$ —**	**$ —**	**$257,947,257**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(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, 2016 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $234,617,888) — including $22,396,962 of securities loaned	$ 232,355,374
Investment in Daily Assets Fund (cost $22,610,159)*	22,610,159
Investment in Deutsche Central Cash Management Government Fund (cost $2,981,724)	2,981,724
Total investments in securities, at value (cost $260,209,771)	257,947,257
Cash	18,083
Receivable for investments sold	4,049,173
Receivable for Fund shares sold	38,894
Dividends receivable	228,019
Interest receivable	15,523
Other assets	2,068
Total assets	262,299,017
Liabilities	
Payable upon return of securities loaned	22,610,159
Payable for investments purchased	839,477
Payable for Fund shares redeemed	145,413
Accrued management fee	116,951
Accrued Trustees' fees	3,824
Other accrued expenses and payables	88,740
Total liabilities	23,804,564
Net assets, at value	**$ 238,494,453**
Net Assets Consist of	
Undistributed net investment income	1,895,246
Net unrealized appreciation (depreciation) on investments	(2,262,514)
Accumulated net realized gain (loss)	(27,429,021)
Paid-in capital	266,290,742
Net assets, at value	**$ 238,494,453**
Class A	
Net Asset Value, offering and redemption price per share ($234,868,828 ÷ 17,840,532 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 13.16**
Class B	
Net Asset Value, offering and redemption price per share ($3,625,625 ÷ 274,529 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 13.21**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income	
Income:	
Dividends	$ 2,807,575
Income distributions — Deutsche Central Cash Management Government Fund	12,158
Securities lending income, including income from Daily Assets Fund, net of borrower rebates	37,533
Total income	2,857,266
Expenses:	
Management fee	798,681
Administration fee	122,933
Services to shareholders	2,269
Record keeping fees (Class B)	1,210
Distribution and service fee (Class B)	4,797
Custodian fee	9,198
Professional fees	37,002
Reports to shareholders	15,260
Trustees' fees and expenses	8,554
Other	8,923
Total expenses before expense reductions	1,008,827
Expense reductions	(96,668)
Total expenses after expense reductions	912,159
Net investment income	**$ 1,945,107**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from investments	(24,905,064)
Change in net unrealized appreciation (depreciation) on investments	(2,579,579)
Net gain (loss)	**(27,484,643)**
Net increase (decrease) in net assets resulting from operations	**(25,539,536)**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income	$ 1,945,107	$ 2,553,436
Net realized gain (loss)	(24,905,064)	10,078,803
Change in net unrealized appreciation (depreciation)	(2,579,579)	(38,128,300)
Net increase (decrease) in net assets resulting from operations	(25,539,536)	(25,496,061)
Distributions to shareholders from:		
Net investment income:		
Class A	(2,434,486)	(5,899,426)
Class B	(25,893)	(54,717)
Net realized gains:		
Class A	(12,035,759)	(17,852,466)
Class B	(185,570)	(214,368)
Total distributions	(14,681,708)	(24,020,977)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,032,831	6,111,736
Reinvestment of distributions	14,470,245	23,751,892
Payments for shares redeemed	(35,989,831)	(118,444,533)
Net increase (decrease) in net assets from Class A share transactions	(18,486,755)	(88,580,905)
Class B		
Proceeds from shares sold	61,623	538,133
Reinvestment of distributions	211,463	269,085
Payments for shares redeemed	(524,754)	(881,598)
Net increase (decrease) in net assets from Class B share transactions	(251,668)	(74,380)
Increase (decrease) in net assets	(58,959,667)	(138,172,323)
Net assets at beginning of period	297,454,120	435,626,443
Net assets at end of period (including undistributed net investment income of $1,895,246 and $2,410,518, respectively)	**$ 238,494,453**	**$ 297,454,120**

Other Information		
Class A		
Shares outstanding at beginning of period	19,157,658	24,769,255
Shares sold	221,827	372,428
Shares issued to shareholders in reinvestment of distributions	1,079,869	1,389,812
Shares redeemed	(2,618,822)	(7,373,837)
Net increase (decrease) in Class A shares	(1,317,126)	(5,611,597)
Shares outstanding at end of period	**17,840,532**	**19,157,658**
Class B		
Shares outstanding at beginning of period	291,996	297,108
Shares sold	4,487	32,072
Shares issued to shareholders in reinvestment of distributions	15,722	15,690
Shares redeemed	(37,676)	(52,874)
Net increase (decrease) in Class B shares	(17,467)	(5,112)
Shares outstanding at end of period	**274,529**	**291,996**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$15.29**	**$17.38**	**$15.97**	**$12.45**	**$11.56**	**$11.80**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.11	.11	.24	.26	.25	.25
Net realized and unrealized gain (loss)	(1.40)	(1.20)	1.45	3.54	.87	(.24)
Total from investment operations	(1.29)	(1.09)	1.69	3.80	1.12	.01
Less distributions from:						
Net investment income	(.14)	(.25)	(.28)	(.28)	(.23)	(.25)
Net realized gains on investment transactions	(.70)	(.75)	—	—	—	—
Total distributions	(.84)	(1.00)	(.28)	(.28)	(.23)	(.25)
Net asset value, end of period	**$13.16**	**$15.29**	**$17.38**	**$15.97**	**$12.45**	**$11.56**
Total Return (%)	(8.49)[b]**	(6.87)[b]	10.72[b]	30.89[b]	9.79[b]	(.07)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	235	293	430	432	377	396
Ratio of expenses before expense reductions (%)	.82*	.78	.78	.78	.78	.79
Ratio of expenses after expense reductions (%)	.74*	.73	.73	.74	.77	.79
Ratio of net investment income (loss) (%)	1.59*	.65	1.43	1.82	2.04	2.15
Portfolio turnover rate (%)	91**	121	133	54	63	28

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 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$15.31**	**$17.40**	**$15.99**	**$12.46**	**$11.57**	**$11.81**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.09	.06	.18	.22	.21	.22
Net realized and unrealized gain (loss)	(1.39)	(1.21)	1.46	3.55	.88	(.25)
Total from investment operations	(1.30)	(1.15)	1.64	3.77	1.09	(.03)
Less distributions from:						
Net investment income	(.10)	(.19)	(.23)	(.24)	(.20)	(.21)
Net realized gains on investment transactions	(.70)	(.75)	—	—	—	—
Total distributions	(.80)	(.94)	(.23)	(.24)	(.20)	(.21)
Net asset value, end of period	**$13.21**	**$15.31**	**$17.40**	**$15.99**	**$12.46**	**$11.57**
Total Return (%)	(8.64)[b]**	(7.16)[b]	10.36[b]	30.54[b]	9.44[b]	(.36)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	4	4	5	5	4	3
Ratio of expenses before expense reductions (%)	1.13*	1.10	1.09	1.09	1.09	1.10
Ratio of expenses after expense reductions (%)	1.05*	1.04	1.04	1.05	1.08	1.10
Ratio of net investment income (loss) (%)	1.30*	.35	1.10	1.52	1.73	1.84
Portfolio turnover rate (%)	91**	121	133	54	63	28

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 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 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. The 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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. 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, 2015 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, 2016, purchases and sales of investment transactions (excluding short-term investments) aggregated $222,235,963 and $255,496,157, 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, 2016, 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, 2016 through April 30, 2016, 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	.73%
Class B	1.04%

Effective May 1, 2016 through April 30, 2017, the Advisor has contractually agreed to waive all or a portion of its fee 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 expense) of each class as follows:

Class A	.75%
Class B	1.06%

For the six months ended June 30, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 94,992
Class B	1,676
	$ 96,668

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, 2016, the Administration Fee was $122,933, of which $19,688 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2016
Class A	$ 212	$ 114
Class B	111	55
	$ 323	**$ 169**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, Deutsche AM 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, 2016, the Distribution Service Fee aggregated $4,797, of which $750 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,306, of which $4,668 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $3,298.

D. Ownership of the Fund

At June 30, 2016, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 50%, 29% and 15%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 62% and 16%.

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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$ 915.10	$ 913.60
Expenses Paid per $1,000*	$ 3.52	$ 5.00
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,021.18	$1,019.64
Expenses Paid per $1,000*	$ 3.72	$ 5.27

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Large Cap Value VIP	.74%	1.05%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. 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 2014 and during the first seven months of 2015. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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 Management

VS2LCV-3 (R-028386-5 8/16)

Deutsche
Asset Management

June 30, 2016

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.

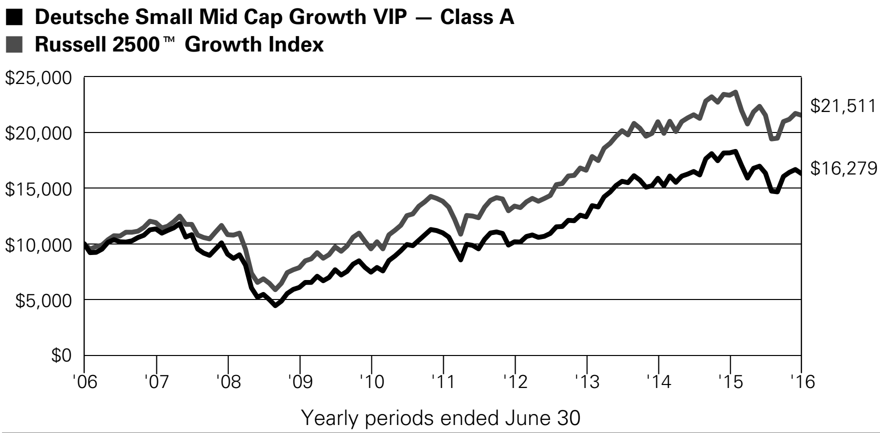
Performance Summary

June 30, 2016 (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, 2016 is 0.72% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment in Deutsche Small Mid Cap Growth VIP



The Russell 2500™ Growth Index is an unmanaged index that measures the performance of the small- to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

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

Comparative Results

Deutsche Small Mid Cap Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$9,970	$8,974	$13,117	$14,833	$16,279
	Average annual total return	–0.30%	–10.26%	9.46%	8.20%	4.99%
Russell 2500 Growth Index	Growth of $10,000	$9,997	$9,231	$12,972	$15,576	$21,511
	Average annual total return	–0.03%	–7.69%	9.06%	9.27%	7.96%

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)	**6/30/16**	**12/31/15**
Common Stocks	95%	98%
Cash Equivalents	5%	2%
Convertible Preferred Stock	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks and Convertible Preferred Stock)	**6/30/16**	**12/31/15**
Consumer Discretionary	21%	20%
Information Technology	20%	20%
Industrials	18%	17%
Health Care	16%	23%
Financials	8%	9%
Materials	7%	5%
Consumer Staples	6%	4%
Energy	3%	2%
Telecommunication Services	1%	—
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 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 95.4%		
Consumer Discretionary 20.3%		
Auto Components 2.5%		
Gentherm, Inc.*	38,010	1,301,843
Tenneco, Inc.*	34,382	1,602,545
		2,904,388
Diversified Consumer Services 0.9%		
Bright Horizons Family Solutions, Inc.*	4,300	285,133
ServiceMaster Global Holdings, Inc.*	19,800	788,040
		1,073,173
Hotels, Restaurants & Leisure 4.4%		
Fogo De Chao, Inc.* (a)	37,723	492,662
Jack in the Box, Inc.	24,652	2,118,100
La Quinta Holdings, Inc.*	59,849	682,279
Panera Bread Co. "A"* (a)	8,568	1,815,902
		5,108,943
Household Durables 1.9%		
iRobot Corp.* (a)	37,393	1,311,746
Newell Brands, Inc.	16,958	823,650
		2,135,396
Leisure Products 1.0%		
Polaris Industries, Inc. (a)	14,619	**1,195,249**
Media 1.3%		
Cinemark Holdings, Inc.	39,218	**1,429,888**
Specialty Retail 5.9%		
Burlington Stores, Inc.*	23,700	1,581,027
Outerwall, Inc. (a)	18,231	765,702
The Children's Place, Inc. (a)	18,041	1,446,527
Ulta Salon, Cosmetics & Fragrance, Inc.*	9,069	2,209,571
Urban Outfitters, Inc.*	30,305	833,388
		6,836,215
Textiles, Apparel & Luxury Goods 2.4%		
Carter's, Inc.	12,586	1,340,032
Hanesbrands, Inc.	54,194	1,361,895
		2,701,927
Consumer Staples 5.4%		
Food & Staples Retailing 2.2%		
Casey's General Stores, Inc.	14,482	1,904,528
United Natural Foods, Inc.*	13,064	611,395
		2,515,923
Food Products 3.2%		
Hain Celestial Group, Inc.*	32,043	1,594,139
The WhiteWave Foods Co.*	44,530	2,090,238
		3,684,377
Energy 2.7%		
Energy Equipment & Services 1.7%		
Core Laboratories NV (a)	6,974	864,009
Dril-Quip, Inc.*	7,284	425,604
Patterson-UTI Energy, Inc.	30,100	641,732
		1,931,345
Oil, Gas & Consumable Fuels 1.0%		
Diamondback Energy, Inc.* (a)	9,620	877,440
Gulfport Energy Corp.*	10,294	321,791
		1,199,231
Financials 8.1%		
Banks 4.9%		
FCB Financial Holdings, Inc. "A"* (a)	30,740	1,045,160
Pinnacle Financial Partners, Inc.	23,461	1,146,070
Signature Bank*	8,291	1,035,712
South State Corp. (a)	14,273	971,278
SVB Financial Group*	6,741	641,473
Talmer Bancorp., Inc. "A"	40,850	783,094
		5,622,787
Capital Markets 1.6%		
Lazard Ltd. "A"	23,866	710,729
Moelis & Co. "A"	22,802	513,045
Oaktree Capital Group LLC	14,942	668,804
		1,892,578
Real Estate Investment Trusts 1.6%		
National Storage Affiliates Trust (REIT)	28,375	590,768
Urban Edge Properties (REIT) (a)	40,000	1,194,400
		1,785,168
Health Care 15.6%		
Biotechnology 4.7%		
Alkermes PLC*	19,068	824,119
Ligand Pharmaceuticals, Inc.* (a)	12,190	1,453,901
Neurocrine Biosciences, Inc.* (a)	14,801	672,706
Retrophin, Inc.*	87,925	1,565,944
Spectrum Pharmaceuticals, Inc.* (a)	132,070	867,700
		5,384,370
Health Care Providers & Services 6.6%		
Centene Corp.*	31,422	2,242,588
Kindred Healthcare, Inc.	123,458	1,393,841
Molina Healthcare, Inc.* (a)	24,381	1,216,612
Providence Service Corp.*	52,452	2,354,045
Teladoc, Inc.* (a)	22,900	366,858
		7,573,944
Life Sciences Tools & Services 1.1%		
PAREXEL International Corp.*	20,753	**1,304,949**
Pharmaceuticals 3.2%		
Flamel Technologies SA (ADR)*	173,244	1,860,641
Medicines Co.* (a)	22,331	750,991
Orexigen Therapeutics, Inc.*	216,200	92,966
Pacira Pharmaceuticals, Inc.*	30,483	1,028,192
		3,732,790
Industrials 17.1%		
Aerospace & Defense 1.6%		
DigitalGlobe, Inc.*	37,813	808,820
HEICO Corp. (a)	15,722	1,050,387
		1,859,207
Airlines 0.7%		
JetBlue Airways Corp.* (a)	50,073	**829,209**
Building Products 2.1%		
A.O. Smith Corp.	13,141	1,157,853
Fortune Brands Home & Security, Inc.	21,743	1,260,442
		2,418,295
Construction & Engineering 1.1%		
Primoris Services Corp.	66,842	**1,265,319**

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

	Shares	Value ($)
Electrical Equipment 3.4%		
Acuity Brands, Inc.	6,962	1,726,298
AZZ, Inc.	26,822	1,608,784
Thermon Group Holdings, Inc.*	28,935	555,841
		3,890,923
Machinery 6.4%		
IDEX Corp.	12,700	1,042,670
John Bean Technologies Corp.	18,300	1,120,326
Middleby Corp.* (a)	19,960	2,300,390
WABCO Holdings, Inc.*	21,222	1,943,298
Watts Water Technologies, Inc. "A"	16,195	943,521
		7,350,205
Marine 0.5%		
Kirby Corp.*	10,100	**630,139**
Professional Services 1.3%		
On Assignment, Inc.*	39,544	**1,461,151**
Information Technology 19.2%		
Communications Equipment 0.5%		
Palo Alto Networks, Inc.*	4,148	**508,711**
Electronic Equipment, Instruments & Components 3.9%		
Cognex Corp.	44,216	1,905,710
IPG Photonics Corp.* (a)	20,128	1,610,240
VeriFone Systems, Inc.*	53,738	996,302
		4,512,252
Internet Software & Services 3.0%		
CoStar Group, Inc.* (a)	7,327	1,602,122
LogMeIn, Inc.*	14,000	888,020
WebMD Health Corp.* (a)	16,245	943,997
		3,434,139
IT Services 6.0%		
Broadridge Financial Solutions, Inc.	23,570	1,536,764
Cardtronics, Inc.* (a)	48,508	1,931,103
MAXIMUS, Inc.	31,434	1,740,501
WEX, Inc.*	9,098	806,720
WNS Holdings Ltd. (ADR)*	34,828	940,356
		6,955,444
Semiconductors & Semiconductor Equipment 1.8%		
Advanced Energy Industries, Inc.*	38,693	1,468,786
Mellanox Technologies Ltd.*	13,600	652,256
		2,121,042

	Shares	Value ($)
Software 4.0%		
Aspen Technology, Inc.* (a)	34,583	1,391,620
Tyler Technologies, Inc.*	13,892	2,315,935
Ultimate Software Group, Inc.* (a)	4,343	913,289
		4,620,844
Materials 6.4%		
Chemicals 3.5%		
A. Schulman, Inc.	40,815	996,702
Huntsman Corp.	72,512	975,286
Minerals Technologies, Inc.	20,978	1,191,551
Trinseo SA*	20,825	894,017
		4,057,556
Construction Materials 1.2%		
Eagle Materials, Inc.	17,856	**1,377,591**
Containers & Packaging 0.8%		
Berry Plastics Group, Inc.*	21,424	**832,322**
Metals & Mining 0.9%		
United States Steel Corp. (a)	62,100	**1,047,006**
Telecommunication Services 0.6%		
Diversified Telecommunication Services		
SBA Communications Corp. "A"*	6,155	**664,371**
Total Common Stocks (Cost $85,577,347)		**109,848,367**

Convertible Preferred Stock 0.3%

	Shares	Value ($)
Health Care		
Providence Service Corp., 5.5% (Cost $283,300)	2,833	**318,748**

Securities Lending Collateral 21.0%

	Shares	Value ($)
Daily Assets Fund "Capital Shares", 0.51% (b) (c) (Cost $24,227,312)	24,227,312	**24,227,312**

Cash Equivalents 4.4%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 0.44% (b) (Cost $5,132,548)	5,132,548	**5,132,548**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $115,220,507)†	121.1	**139,526,975**
Other Assets and Liabilities, Net	(21.1)	**(24,331,381)**
Net Assets	100.0	**115,195,594**

* Non-income producing security.

† The cost for federal income tax purposes was $116,013,454. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $23,513,521. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $31,325,724 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $7,812,203.

(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, 2016 amounted to $23,895,301, which is 20.7% 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.

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, 2016 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)	$109,848,367	$ —	$ —	$109,848,367
Convertible Preferred Stock	—	—	318,748	318,748
Short-Term Investments (d)	29,359,860	—	—	29,359,860
Total	**$139,208,227**	**$ —**	**$ 318,748**	**$139,526,975**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(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, 2016 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $85,860,647) — including $23,895,301 of securities loaned	$	110,167,115
Investment in Daily Assets Fund (cost $24,227,312)*		24,227,312
Investment in Deutsche Central Cash Management Government Fund (cost $5,132,548)		5,132,548
Total investments in securities, at value (cost $115,220,507)		139,526,975
Cash		10,000
Receivable for investments sold		1,043,667
Receivable for Fund shares sold		739
Dividends receivable		17,399
Interest receivable		12,744
Other assets		1,043
Total assets		140,612,567
Liabilities		
Payable upon return of securities loaned		24,227,312
Payable for investments purchased		1,011,735
Payable for Fund shares redeemed		50,142
Accrued management fee		52,945
Accrued Trustees' fees		1,078
Other accrued expenses and payables		73,761
Total liabilities		25,416,973
Net assets, at value	**$**	**115,195,594**
Net Assets Consist of		
Undistributed net investment income		39,672
Net unrealized appreciation (depreciation) on investments		24,306,468
Accumulated net realized gain (loss)		1,619,320
Paid-in capital		89,230,134
Net assets, at value	**$**	**115,195,594**
Class A		
Net Asset Value, offering and redemption price per share ($115,195,594 ÷ 6,648,077 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**17.33**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $1,085)	$	412,215
Interest		688
Income distributions — Deutsche Central Cash Management Government Fund		4,648
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		60,543
Total income		478,094
Expenses:		
Management fee		314,614
Administration fee		57,203
Services to shareholders		938
Custodian fee		5,320
Professional fees		37,856
Reports to shareholders		13,748
Trustees' fees and expenses		4,074
Other		4,669
Total expenses		438,422
Net investment income (loss)		**39,672**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		2,401,631
Change in net unrealized appreciation (depreciation) on investments		(4,630,465)
Net gain (loss)		**(2,228,834)**
Net increase (decrease) in net assets resulting from operations	**$**	**(2,189,162)**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income (loss)	$ 39,672	$ (327,026)
Net realized gain (loss)	2,401,631	21,100,175
Change in net unrealized appreciation (depreciation)	(4,630,465)	(21,155,273)
Net increase (decrease) in net assets resulting from operations	(2,189,162)	(382,124)
Distributions to shareholders from:		
Net realized gains		
Class A	(20,264,895)	(13,914,292)
Fund share transactions:		
Class A		
Proceeds from shares sold	828,424	9,710,776
Reinvestment of distributions	20,264,895	13,914,292
Cost of shares redeemed	(18,638,393)	(46,020,854)
Net increase (decrease) in net assets from Class A share transactions	2,454,926	(22,395,786)
Increase (decrease) in net assets	(19,999,131)	(36,692,202)
Net assets at beginning of period	135,194,725	171,886,927
Net assets at end of period (including undistributed net investment income $39,672 and $0, respectively)	**$ 115,195,594**	**$ 135,194,725**
Other Information		
Class A		
Shares outstanding at beginning of period	6,467,679	7,527,702
Shares sold	44,874	422,288
Shares issued to shareholders in reinvestment of distributions	1,137,838	604,706
Shares redeemed	(1,002,314)	(2,087,017)
Net increase (decrease) in Class A shares	180,398	(1,060,023)
Shares outstanding at end of period	**6,648,077**	**6,467,679**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$20.90**	**$22.83**	**$21.59**	**$15.14**	**$13.24**	**$13.85**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.01	(.04)	(.02)	(.04)	.02	(.03)
Net realized and unrealized gain (loss)	.02[b]	(.00)	1.26	6.51	1.88	(.50)
Total from investment operations	.03	(.04)	1.24	6.47	1.90	(.53)
Less distributions from:						
Net investment income	—	—	—	(.02)	—	(.08)
Net realized gains	(3.60)	(1.89)	—	—	—	—
Total distributions	(3.60)	(1.89)	—	(.02)	—	(.08)
Net asset value, end of period	**$17.33**	**$20.90**	**$22.83**	**$21.59**	**$15.14**	**$13.24**
Total Return (%)	(.30)**	(.90)	5.74	42.78	14.35	(3.91)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	115	135	172	187	145	147
Ratio of expenses (%)	.77*	.72	.73	.72	.74	.73
Ratio of net investment income (loss) (%)	.07*	(.19)	(.11)	(.22)	.11	(.23)
Portfolio turnover rate (%)	11**	42	44	56	57	84

a Based on average shares outstanding during the period.

b Due to the timing of subscriptions and redemptions in relation to the operating results of the Fund, the amount shown does not correspond with the aggregate net loss on investments 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-trade 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.

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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. 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, 2015 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, 2016, purchases and sales of investment transactions (excluding short-term investments) aggregated $12,324,185 and $32,104,756, 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, 2016, 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, 2016 through September 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 0.86%.

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, 2016, the Administration Fee was $57,203, of which $9,626 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $182, of which $81 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,194, of which $5,147 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $5,324.

D. Ownership of the Fund

At June 30, 2016, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 69% and 26%.

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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$ 997.00
Expenses Paid per $1,000*	$ 3.82

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$1,021.03
Expenses Paid per $1,000*	$ 3.87

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Small Mid Cap Growth VIP	.77%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 3rd quartile, 2nd 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014.

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, 2014). 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, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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

Notes

Deutsche
Asset Management

VS2SMCG-3 (R-028388-5 8/16)

Deutsche
Asset Management

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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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

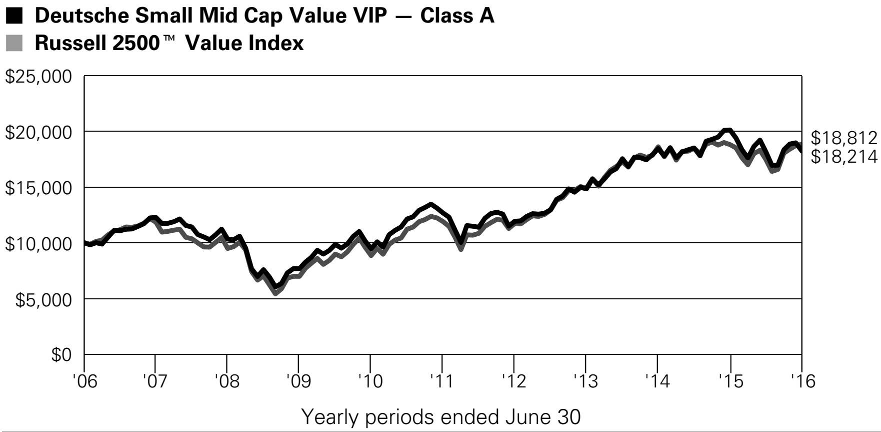
Performance Summary

June 30, 2016 (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, 2016 are 0.80% and 1.16% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment in 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	$10,046	$9,064	$12,283	$14,379	$18,214
	Average annual total return	0.46%	–9.36%	7.09%	7.53%	6.18%
Russell 2500 Value Index	Growth of $10,000	$10,784	$10,022	$12,646	$15,806	$18,812
	Average annual total return	7.84%	0.22%	8.14%	9.59%	6.52%

Deutsche Small Mid Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,029	$9,032	$12,150	$14,124	$17,581
	Average annual total return	0.29%	–9.68%	6.71%	7.15%	5.80%
Russell 2500 Value Index	Growth of $10,000	$10,784	$10,022	$12,646	$15,806	$18,812
	Average annual total return	7.84%	0.22%	8.14%	9.59%	6.52%

The growth of $10,000 is cumulative.

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

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/16**	**12/31/15**
Common Stocks	89%	97%
Cash Equivalents	11%	3%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/16**	**12/31/15**
Financials	29%	25%
Industrials	20%	26%
Information Technology	18%	19%
Consumer Discretionary	11%	10%
Energy	6%	5%
Health Care	5%	4%
Materials	4%	9%
Utilities	4%	—
Consumer Staples	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

Richard Hanlon, CFA
Mary Schafer
Portfolio Managers

	Shares	Value ($)
Common Stocks 91.2%		
Consumer Discretionary 10.5%		
Auto Components 2.7%		
Standard Motor Products, Inc.	24,566	977,235
Visteon Corp.	48,870	3,216,135
		4,193,370
Leisure Products 1.5%		
Polaris Industries, Inc. (a)	29,000	**2,371,040**
Media 1.6%		
TEGNA, Inc.	109,700	**2,541,749**
Specialty Retail 2.8%		
Hibbett Sports, Inc.* (a)	59,242	2,061,029
Ross Stores, Inc.	40,025	2,269,017
		4,330,046
Textiles, Apparel & Luxury Goods 1.9%		
Hanesbrands, Inc.	118,874	**2,987,304**
Consumer Staples 2.7%		
Food Products		
ConAgra Foods, Inc.	88,722	**4,241,799**
Energy 5.2%		
Oil, Gas & Consumable Fuels		
Cimarex Energy Co.	28,351	3,382,841
Matador Resources Co.* (a)	102,122	2,022,016
QEP Resources, Inc.	150,981	2,661,795
		8,066,652
Financials 26.2%		
Banks 9.2%		
Capital Bank Financial Corp. "A" (a)	113,350	3,264,480
Great Western Bancorp., Inc.	96,938	3,057,424
KeyCorp	289,871	3,203,075
OFG Bancorp. (a)	307,463	2,551,943
Sterling Bancorp.	148,002	2,323,631
		14,400,553
Capital Markets 2.1%		
Lazard Ltd. "A"	110,145	**3,280,118**
Consumer Finance 2.5%		
Synchrony Financial*	152,355	**3,851,535**
Insurance 4.9%		
CNO Financial Group, Inc.	211,313	3,689,525
Reinsurance Group of America, Inc.	40,388	3,917,232
		7,606,757
Real Estate Investment Trusts 5.2%		
Agree Realty Corp. (REIT)	10,382	500,828
Gaming and Leisure Properties, Inc. (REIT)	72,982	2,516,419
Pebblebrook Hotel Trust (REIT)	101,600	2,667,000
Physicians Realty Trust (REIT)	113,600	2,386,736
		8,070,983
Thrifts & Mortgage Finance 2.3%		
Walker & Dunlop, Inc.*	161,782	**3,685,394**
Health Care 4.8%		
Health Care Providers & Services 3.2%		
AmerisourceBergen Corp.	32,400	2,569,968
HealthSouth Corp.	61,221	2,376,599
		4,946,567
Life Sciences Tools & Services 1.6%		
PerkinElmer, Inc.	49,343	**2,586,560**
Industrials 18.0%		
Aerospace & Defense 2.6%		
BWX Technologies, Inc.	62,690	2,242,421
Curtiss-Wright Corp.	22,139	1,865,211
		4,107,632
Air Freight & Logistics 1.3%		
Forward Air Corp.	45,860	**2,042,146**
Commercial Services & Supplies 4.5%		
Covanta Holding Corp.	130,425	2,145,491
Pitney Bowes, Inc.	192,791	3,431,680
The Brink's Co.	50,474	1,438,004
		7,015,175
Electrical Equipment 0.9%		
Babcock & Wilcox Enterprises, Inc.*	93,551	**1,374,264**
Machinery 5.7%		
Hillenbrand, Inc.	54,400	1,634,176
Stanley Black & Decker, Inc.	43,314	4,817,383
Xylem, Inc.	55,010	2,456,197
		8,907,756
Professional Services 1.1%		
FTI Consulting, Inc.*	42,373	**1,723,734**
Trading Companies & Distributors 1.9%		
AerCap Holdings NV*	90,100	**3,026,459**
Information Technology 16.3%		
Communications Equipment 3.2%		
Harris Corp.	58,768	**4,903,602**
Electronic Equipment, Instruments & Components 6.5%		
Dolby Laboratories, Inc. "A"	95,558	4,572,450
Keysight Technologies, Inc.*	52,500	1,527,225
Rogers Corp.*	38,541	2,354,855
VeriFone Systems, Inc.*	94,600	1,753,884
		10,208,414
IT Services 4.1%		
Convergys Corp.	120,792	3,019,800
NeuStar, Inc. "A"* (a)	145,421	3,418,848
		6,438,648
Software 1.5%		
Verint Systems, Inc.*	69,132	**2,290,343**
Technology Hardware, Storage & Peripherals 1.0%		
NetApp, Inc.	65,700	**1,615,563**
Materials 3.7%		
Chemicals 1.5%		
Celanese Corp. "A"	34,868	**2,282,111**
Containers & Packaging 2.2%		
Sealed Air Corp.	75,932	**3,490,594**
Utilities 3.8%		
Electric Utilities		
FirstEnergy Corp.	95,615	3,337,920
IDACORP, Inc.	32,700	2,660,145
		5,998,065
Total Common Stocks (Cost $131,899,437)		**142,584,933**

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

	Shares	Value ($)
Securities Lending Collateral 7.3%		
Daily Assets Fund "Capital Shares", 0.51% (b) (c) (Cost $11,426,345)	11,426,345	**11,426,345**
Cash Equivalents 11.7%		
Deutsche Central Cash Management Government Fund, 0.44% (b) (Cost $18,231,118)	18,231,118	**18,231,118**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $161,556,900)†	110.2	**172,242,396**
Other Assets and Liabilities, Net	(10.2)	**(15,943,695)**
Net Assets	100.0	**156,298,701**

* Non-income producing security.

† The cost for federal income tax purposes was $161,493,092. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $10,749,304. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $21,263,297 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $10,513,993.

(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, 2016 amounted to $11,108,434, which is 7.1% of net assets.

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

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

REIT: Real Estate Investment Trust

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2016 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)	$142,584,933	$ —	$ —	$142,584,933
Short-Term Investments (d)	29,657,463	—	—	29,657,463
Total	**$172,242,396**	**$ —**	**$ —**	**$172,242,396**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(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, 2016 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $131,899,437) — including $11,108,434 of securities loaned	$	142,584,933
Investment in Daily Assets Fund (cost $11,426,345)*		11,426,345
Investment in Deutsche Central Cash Management Government Fund (cost $18,231,118)		18,231,118
Total investments in securities, at value (cost $161,556,900)		172,242,396
Receivable for investments sold		1,036,469
Receivable for Fund shares sold		5,435
Dividends receivable		144,267
Interest receivable		8,988
Other assets		1,105
Total assets		173,438,660

Liabilities		
Payable for investments purchased		5,284,474
Payable upon return of securities loaned		11,426,345
Payable for Fund shares redeemed		267,618
Accrued management fee		85,404
Accrued Trustees' fees		1,472
Other accrued expenses and payables		74,646
Total liabilities		17,139,959
Net assets, at value	**$**	**156,298,701**

Net Assets Consist of		
Undistributed net investment income		996,024
Net unrealized appreciation (depreciation) on: Investments		10,685,496
Accumulated net realized gain (loss)		(3,829,409)
Paid-in capital		148,446,590
Net assets, at value	**$**	**156,298,701**
Class A		
Net Asset Value, offering and redemption price per share ($143,311,591 ÷ 10,011,583 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**14.31**
Class B		
Net Asset Value, offering and redemption price per share ($12,987,110 ÷ 906,898 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**14.32**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2016 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $3,690)	$	1,558,437
Income distributions — Deutsche Central Cash Management Government Fund		14,597
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		40,240
Total income		1,613,274
Expenses:		
Management fee		513,776
Administration fee		79,043
Services to shareholders		2,885
Record keeping fees (Class B)		6,965
Distribution service fee (Class B)		16,221
Custodian fee		4,074
Professional fees		34,706
Reports to shareholders		16,212
Trustees' fees and expenses		5,082
Other		4,830
Total expenses before expense reductions		683,794
Expense reductions		(12,287)
Total expenses after expense reductions		671,507
Net investment income (loss)		**941,767**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		(3,860,149)
Change in net unrealized appreciation (depreciation) on investments		2,755,014
Net gain (loss)		**(1,105,135)**
Net increase (decrease) in net assets resulting from operations	**$**	**(163,368)**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income (loss)	$ 941,767	$ 1,012,706
Net realized gain (loss)	(3,860,149)	17,066,350
Change in net unrealized appreciation (depreciation)	2,755,014	(20,852,678)
Net increase (decrease) in net assets resulting from operations	(163,368)	(2,773,622)
Distributions to shareholders from:		
Net investment income:		
Class A	(888,084)	(593,081)
Class B	(31,217)	—
Net realized gains:		
Class A	(15,665,658)	(17,173,555)
Class B	(1,422,898)	(1,373,376)
Total distributions	(18,007,857)	(19,140,012)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,740,883	11,088,951
Reinvestment of distributions	16,553,742	17,766,636
Payments for shares redeemed	(20,021,610)	(52,858,262)
Net increase (decrease) in net assets from Class A share transactions	(726,985)	(24,002,675)
Class B		
Proceeds from shares sold	956,795	2,463,269
Reinvestment of distributions	1,454,115	1,373,376
Payments for shares redeemed	(1,591,677)	(5,621,076)
Net increase (decrease) in net assets from Class B share transactions	819,233	(1,784,431)
Increase (decrease) in net assets	(18,078,977)	(47,700,740)
Net assets at beginning of period	174,377,678	222,078,418
Net assets at end of period (including undistributed net investment income of $996,024 and $973,558, respectively)	**$ 156,298,701**	**$ 174,377,678**

Other Information		
Class A		
Shares outstanding at beginning of period	10,068,570	11,531,437
Shares sold	180,368	646,274
Shares issued to shareholders in reinvestment of distributions	1,110,244	1,025,787
Shares redeemed	(1,347,599)	(3,134,928)
Net increase (decrease) in Class A shares	(56,987)	(1,462,867)
Shares outstanding at end of period	**10,011,583**	**10,068,570**
Class B		
Shares outstanding at beginning of period	852,173	953,703
Shares sold	64,197	143,164
Shares issued to shareholders in reinvestment of distributions	97,461	79,203
Shares redeemed	(106,933)	(323,897)
Net increase (decrease) in Class B shares	54,725	(101,530)
Shares outstanding at end of period	**906,898**	**852,173**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$15.97**	**$17.79**	**$17.08**	**$12.78**	**$11.36**	**$12.21**
Income (loss) from investment operations:						
Net investment income[a]	.09	.09	.05	.12	.14	.13
Net realized and unrealized gain (loss)	.06[c]	(.31)	.88	4.35	1.42	(.85)
Total from investment operations	.15	(.22)	.93	4.47	1.56	(.72)
Less distributions from:						
Net investment income	(.10)	(.05)	(.14)	(.17)	(.14)	(.13)
Net realized gains	(1.71)	(1.55)	(.08)	—	—	—
Total distributions	(1.81)	(1.60)	(.22)	(.17)	(.14)	(.13)
Net asset value, end of period	**$14.31**	**$15.97**	**$17.79**	**$17.08**	**$12.78**	**$11.36**
Total Return (%)	.46[b]**	(1.91)	5.53	35.24	13.77	(6.08)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	143	161	205	240	219	216
Ratio of expenses before expense reductions (%)	.84*	.80	.82	.82	.82	.81
Ratio of expenses after expense reductions (%)	.82*	.80	.82	.82	.82	.81
Ratio of net investment income (%)	1.24*	.51	.32	.81	1.18	1.08
Portfolio turnover rate (%)	21**	25	34	115	11	36

a Based on average shares outstanding during the period.

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

c Due to the timing of subscriptions and redemptions in relation to the operating results of the Fund, the amount shown does not correspond with the aggregate net loss on investments during the period.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$15.95**	**$17.77**	**$17.07**	**$12.78**	**$11.36**	**$12.20**
Income (loss) from investment operations:						
Net investment income[a]	.06	.02	(.01)	.07	.10	.09
Net realized and unrealized gain (loss)	.06[c]	(.29)	.87	4.34	1.42	(.85)
Total from investment operations	.12	(.27)	.86	4.41	1.52	(.76)
Less distributions from:						
Net investment income	(.04)	—	(.08)	(.12)	(.10)	(.08)
Net realized gains	(1.71)	(1.55)	(.08)	—	—	—
Total distributions	(1.75)	(1.55)	(.16)	(.12)	(.10)	(.08)
Net asset value, end of period	**$14.32**	**$15.95**	**$17.77**	**$17.07**	**$12.78**	**$11.36**
Total Return (%)	.29[b]**	(2.21)	5.09	34.70	13.38	(6.33)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	13	14	17	20	17	20
Ratio of expenses before expense reductions (%)	1.20*	1.16	1.17	1.17	1.16	1.15
Ratio of expenses after expense reductions (%)	1.18*	1.16	1.17	1.17	1.16	1.15
Ratio of net investment income (loss) (%)	.75*	.14	(.04)	.45	.81	.74
Portfolio turnover rate (%)	21**	25	34	115	11	36

a Based on average shares outstanding during the period.

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

c Due to the timing of subscriptions and redemptions in relation to the operating results of the Fund, the amount shown does not correspond with the aggregate net loss on investments during the period.

* 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. The 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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period.. 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, 2016, the Fund had securities on loan, which were classified as common stocks in the Investment Portfolio. 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, 2015 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.

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, 2016, purchases and sales of investment transactions (excluding short-term investments) aggregated $32,186,390 and $56,831,696, 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, 2016, 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, 2016 through September 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) of each class as follows:

Class A	.82%
Class B	1.18%

For the six months ended June 30, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 11,190
Class B	1,097
	$ 12,287

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, 2016, the Administration Fee was $79,043, of which $13,240 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at June 30, 2016
Class A	$ 330	$ 175
Class B	301	162
	$ 631	**$ 337**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, Deutsche AM 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, 2016, the Distribution Service Fee aggregated $16,221, of which $2,749 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,362, of which $4,046 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 51% and 23%. Three participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 31%, 24% and 17%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if 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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	Class A	Class B
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,004.60	$1,002.90
Expenses Paid per $1,000*	$ 4.09	$ 5.88

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 1/1/16	$1,000.00	$1,000.00
Ending Account Value 6/30/16	$1,020.79	$1,019.00
Expenses Paid per $1,000*	$ 4.12	$ 5.92

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

Annualized Expense Ratios	Class A	Class B
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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Directors that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 4th quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. 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 2015. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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 Management

VS2SMCV-3 (R-028381-5 8/16)

Deutsche
Asset Management

June 30, 2016

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 and less liquid 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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

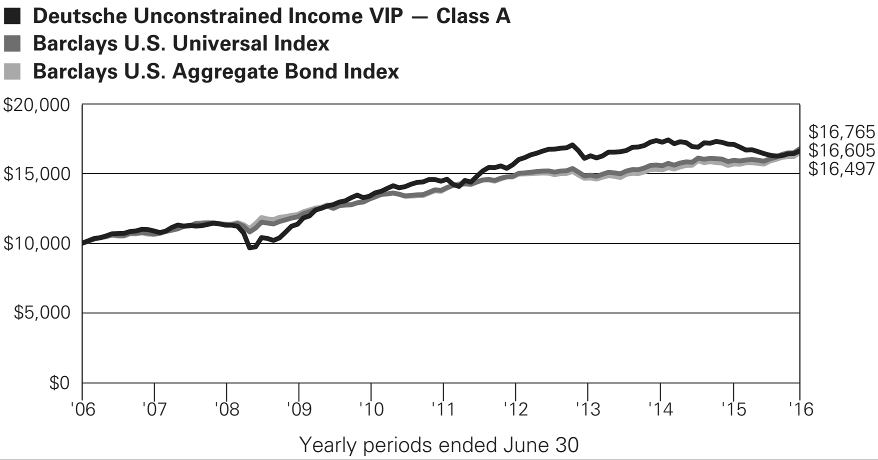
Performance Summary

June 30, 2016 (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, 2016 is 1.16% 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	$10,123	$9,713	$10,332	$11,500	$16,605
	Average annual total return	1.23%	–2.87%	1.09%	2.84%	5.20%
Barclays U.S. Universal Index	Growth of $10,000	$10,568	$10,582	$11,312	$12,174	$16,765
	Average annual total return	5.68%	5.82%	4.20%	4.01%	5.30%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,531	$10,600	$11,269	$12,028	$16,497
	Average annual total return	5.31%	6.00%	4.06%	3.76%	5.13%

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)	**6/30/16**	**12/31/15**
Government & Agency Obligations	33%	20%
Corporate Bonds	19%	47%
Cash Equivalents	15%	3%
Collateralized Mortgage Obligations	13%	13%
Loan Participations and Assignments	5%	4%
Exchange-Traded Funds	4%	—
Commercial Mortgage-Backed Securities	4%	2%
Mortgage-Backed Securities Pass-Throughs	3%	8%
Asset-Backed	2%	2%
Common Stocks	1%	1%
Put Options Purchased	1%	0%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**6/30/16**	**12/31/15**
AAA	53%	32%
AA	1%	0%
A	8%	4%
BBB	19%	14%
BB	12%	29%
B	2%	16%
CCC or Below	3%	3%
Not Rated	2%	2%
	100%	100%

Interest Rate Sensitivity	**6/30/16**	**12/31/15**
Effective Maturity	5.4 years	7.6 years
Effective Duration	3.5 years	3.5 years

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

John D. Ryan

Darwei Kung

Portfolio Managers

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 18.8%		
Consumer Discretionary 1.4%		
21st Century Fox America, Inc., 3.7%, 10/15/2025	10,000	10,832
Ally Financial, Inc., 5.75%, 11/20/2025 (b)	30,000	30,075
Charter Communications Operating LLC:		
144A, 3.579%, 7/23/2020	20,000	20,909
144A, 4.908%, 7/23/2025	10,000	10,933
Churchill Downs, Inc., 144A, 5.375%, 12/15/2021	15,000	15,319
CVS Health Corp., 5.125%, 7/20/2045	30,000	37,217
Discovery Communications LLC, 4.875%, 4/1/2043	10,000	9,021
General Motors Co., 6.6%, 4/1/2036	15,000	17,201
General Motors Financial Co., Inc.:		
2.4%, 5/9/2019	15,000	15,042
3.2%, 7/13/2020	50,000	50,653
3.2%, 7/6/2021 (c)	25,000	25,040
5.25%, 3/1/2026	15,000	16,306
Starbucks Corp., 2.45%, 6/15/2026	15,000	15,233
The Gap, Inc., 5.95%, 4/12/2021 (b)	80,000	83,438
Time Warner Cable, Inc., 7.3%, 7/1/2038	20,000	25,045
Walgreens Boots Alliance, Inc., 4.8%, 11/18/2044	20,000	21,516
		403,780
Consumer Staples 2.2%		
Altria Group, Inc., 9.95%, 11/10/2038	50,000	89,947
Anheuser-Busch InBev Finance, Inc., 4.9%, 2/1/2046	30,000	35,155
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020	85,000	88,453
Kraft Heinz Foods Co., 144A, 4.375%, 6/1/2046	140,000	148,053
Minerva Luxembourg SA, 144A, 12.25%, 2/10/2022	200,000	216,000
Molson Coors Brewing Co.:		
3.0%, 7/15/2026 (c)	15,000	14,985
4.2%, 7/15/2046 (c)	15,000	15,064
PepsiCo, Inc., 4.45%, 4/14/2046	10,000	11,670
		619,327
Energy 1.7%		
Anadarko Petroleum Corp.:		
4.85%, 3/15/2021	10,000	10,606
5.55%, 3/15/2026 (b)	10,000	11,043
6.6%, 3/15/2046	10,000	12,075
ConocoPhillips Co.:		
4.15%, 11/15/2034	20,000	20,205
4.2%, 3/15/2021 (b)	10,000	10,827
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	200,000	207,000
Ensco PLC, 4.7%, 3/15/2021	20,000	16,618
Exxon Mobil Corp., 4.114%, 3/1/2046	20,000	22,556
Halliburton Co., 3.8%, 11/15/2025	35,000	36,556
Kinder Morgan Energy Partners LP, 6.375%, 3/1/2041	10,000	10,427
Noble Holding International Ltd., 5.0%, 3/16/2018	10,000	9,850
ONEOK Partners LP, 3.375%, 10/1/2022	5,000	4,892
Plains All American Pipeline LP, 2.85%, 1/31/2023	30,000	27,613
Schlumberger Holdings Corp., 144A, 4.0%, 12/21/2025	25,000	26,906
Shell International Finance BV, 4.0%, 5/10/2046	15,000	15,299
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	20,000	19,678
Williams Partners LP, 4.0%, 11/15/2021	40,000	39,015
		501,166
Financials 6.8%		
American Tower Corp., (REIT), 3.3%, 2/15/2021	10,000	10,432
Apollo Investment Corp., 5.25%, 3/3/2025	30,000	30,119
Ares Capital Corp., 3.875%, 1/15/2020	50,000	51,717
Banco Continental SAECA, 144A, 8.875%, 10/15/2017	200,000	203,000
Barclays Bank PLC, 144A, 6.05%, 12/4/2017	120,000	125,668
Blackstone Holdings Finance Co., LLC, 144A, 5.0%, 6/15/2044	10,000	10,848
Branch Banking & Trust Co., 1.45%, 5/10/2019	20,000	20,080
CBL & Associates LP:		
(REIT), 4.6%, 10/15/2024 (b)	20,000	18,022
(REIT), 5.25%, 12/1/2023	40,000	37,950
Citigroup, Inc., 1.157%**, 5/1/2017	110,000	110,014
Corp. Financiera de Desarrollo SA, 144A, 4.75%, 2/8/2022	250,000	265,000
Crown Castle International Corp.:		
(REIT), 3.4%, 2/15/2021	15,000	15,659
(REIT), 3.7%, 6/15/2026	5,000	5,158
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	30,000	30,705
FS Investment Corp., 4.75%, 5/15/2022	40,000	40,776
Government Properties Income Trust, (REIT), 3.75%, 8/15/2019	30,000	30,773
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	40,000	42,988
HSBC Holdings PLC, 3.9%, 5/25/2026	20,000	20,576
Jefferies Group LLC, 5.125%, 4/13/2018	40,000	41,838
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	20,000	20,210
Legg Mason, Inc., 5.625%, 1/15/2044	20,000	20,548
Loews Corp., 4.125%, 5/15/2043	20,000	20,448
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	110,000	122,628
Manulife Financial Corp.:		
4.9%, 9/17/2020	20,000	22,184
5.375%, 3/4/2046	25,000	29,214

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

	Principal Amount ($)(a)	Value ($)
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	10,000	9,557
Morgan Stanley, Series F, 5.625%, 9/23/2019	120,000	133,141
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	20,000	21,879
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	30,000	31,211
Santander Holdings U.S.A., Inc.:		
2.7%, 5/24/2019	35,000	35,168
4.5%, 7/17/2025	110,000	112,992
Santander UK PLC, 2.5%, 3/14/2019	30,000	30,306
Scentre Group Trust 1, 144A, (REIT), 3.5%, 2/12/2025	40,000	41,356
Select Income REIT, (REIT), 4.15%, 2/1/2022	30,000	30,140
Suncorp-Metway Ltd., 144A, 2.1%, 5/3/2019	10,000	10,111
Swiss Re Treasury U.S. Corp., 144A, 4.25%, 12/6/2042	20,000	21,128
The Goldman Sachs Group, Inc., 1.305%**, 6/4/2017	110,000	110,083
Voya Financial, Inc., 4.8%, 6/15/2046	15,000	14,985
		1,948,612

Health Care 1.2%

	Principal Amount ($)(a)	Value ($)
AbbVie, Inc.:		
3.2%, 5/14/2026	15,000	15,195
3.6%, 5/14/2025	20,000	20,957
4.7%, 5/14/2045	30,000	31,727
Actavis Funding SCS, 4.75%, 3/15/2045	20,000	21,001
Actavis, Inc., 3.25%, 10/1/2022	40,000	40,867
Aetna, Inc.:		
2.8%, 6/15/2023	10,000	10,215
4.375%, 6/15/2046	15,000	15,577
Anthem, Inc., 3.3%, 1/15/2023	20,000	20,659
Celgene Corp., 3.875%, 8/15/2025 (b)	40,000	42,667
Express Scripts Holding Co.:		
3.4%, 3/1/2027 (c)	5,000	4,994
4.8%, 7/15/2046 (c)	10,000	9,987
Forest Laboratories LLC, 144A, 4.875%, 2/15/2021	40,000	44,397
Johnson & Johnson, 3.7%, 3/1/2046	10,000	11,260
Mylan NV:		
144A, 3.15%, 6/15/2021	15,000	15,215
144A, 5.25%, 6/15/2046	10,000	10,417
Stryker Corp.:		
3.375%, 11/1/2025	20,000	20,988
3.5%, 3/15/2026	5,000	5,304
4.625%, 3/15/2046	10,000	11,235
		352,662

Industrials 0.9%

	Principal Amount ($)(a)	Value ($)
Cemex Finance LLC, 144A, 9.375%, 10/12/2022	200,000	220,000
FedEx Corp., 4.55%, 4/1/2046	15,000	16,276
Molex Electronic Technologies LLC, 144A, 3.9%, 4/15/2025	20,000	20,411
Republic Services, Inc., 2.9%, 7/1/2026 (c)	10,000	10,142
		266,829

Information Technology 1.3%

		Principal Amount ($)(a)	Value ($)
Apple, Inc., 3.45%, 2/9/2045		10,000	9,396
Diamond 1 Finance Corp.:			
144A, 4.42%, 6/15/2021		145,000	149,244
144A, 5.45%, 6/15/2023		20,000	20,751
144A, 8.1%, 7/15/2036		20,000	21,561
eBay, Inc., 3.8%, 3/9/2022		16,000	17,001
Fidelity National Information Services, Inc., 3.625%, 10/15/2020		30,000	31,714
Hewlett Packard Enterprise Co.:			
144A, 3.6%, 10/15/2020		20,000	20,876
144A, 4.9%, 10/15/2025		30,000	31,345
KLA-Tencor Corp., 4.65%, 11/1/2024		10,000	10,909
Lam Research Corp., 3.9%, 6/15/2026		10,000	10,528
Oracle Corp., 2.65%, 7/15/2026 (c)		30,000	30,075
Seagate HDD Cayman, 5.75%, 12/1/2034		30,000	21,075
			374,475

Materials 1.2%

		Principal Amount ($)(a)	Value ($)
Glencore Funding LLC, 144A, 4.625%, 4/29/2024 (b)		10,000	9,350
Novolipetsk Steel, 144A, 4.5%, 6/15/2023		200,000	197,500
Rio Tinto Finance U.S.A. Ltd., 3.75%, 6/15/2025 (b)		20,000	20,922
Yamana Gold, Inc., 4.95%, 7/15/2024		120,000	118,056
			345,828

Telecommunication Services 1.8%

		Principal Amount ($)(a)	Value ($)
America Movil SAB de CV, 7.125%, 12/9/2024	MXN	2,000,000	106,473
AT&T, Inc.:			
3.4%, 5/15/2025		80,000	81,833
3.8%, 3/15/2022		10,000	10,623
4.125%, 2/17/2026		25,000	26,856
4.35%, 6/15/2045		20,000	19,379
5.65%, 2/15/2047		20,000	22,904
Telefonica Celular del Paraguay SA, 144A, 6.75%, 12/13/2022		200,000	201,000
Verizon Communications, Inc.:			
3.5%, 11/1/2024 (b)		30,000	31,906
4.672%, 3/15/2055		30,000	30,343
			531,317

Utilities 0.3%

		Principal Amount ($)(a)	Value ($)
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024*		100,000	50,000
Southern Co., 3.25%, 7/1/2026		30,000	31,162
			81,162
Total Corporate Bonds (Cost $5,315,212)			**5,425,158**

Mortgage-Backed Securities Pass-Throughs 2.5%

		Principal Amount ($)(a)	Value ($)
Federal National Mortgage Association, 3.5%, 3/1/2046 (Cost $726,652)		701,550	**728,812**

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

	Principal Amount ($)(a)	Value ($)
Asset-Backed 1.8%		
Home Equity Loans 0.1%		
CIT Group Home Equity Loan Trust, "AF6", Series 2002-1, 6.2%, 2/25/2030	32,660	**32,568**
Miscellaneous 1.7%		
ARES CLO Ltd., "D", Series 2012-3A, 144A, 5.27%**, 1/17/2024	250,000	241,959
Domino's Pizza Master Issuer LLC, "A2", Series 2012-1A, 144A, 5.216%, 1/25/2042	88,519	91,104
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	168,838	165,553
		498,616
Total Asset-Backed (Cost $535,323)		**531,184**
Commercial Mortgage-Backed Securities 4.1%		
Credit Suisse First Boston Mortgage Securities Corp., "G", Series 2005-C6, 144A, 5.23%**, 12/15/2040	250,000	248,842
CSAIL Commercial Mortgage Trust, "A4", Series 2015-C4, 3.808%, 11/15/2048	110,000	121,093
GMAC Commercial Mortgage Securities, Inc., "G", Series 2004-C1, 144A, 5.455%, 3/10/2038	502,681	494,094
JPMBB Commercial Mortgage Securities Trust:		
"A4", Series 2015-C28, 3.227%, 10/15/2048	170,000	179,506
"A3", Series 2014-C19, 3.669%, 4/15/2047	125,000	134,475
Total Commercial Mortgage-Backed Securities (Cost $1,163,650)		**1,178,010**
Collateralized Mortgage Obligations 12.7%		
Banc of America Mortgage Securities, "2A2", Series 2004-A, 2.948%**, 2/25/2034	68,602	65,016
Bear Stearns Adjustable Rate Mortgage Trust, "2A1", Series 2005-11, 3.301%**, 12/25/2035	89,695	90,507
Countrywide Home Loans, "2A5", Series 2004-13, 5.75%, 8/25/2034	50,630	50,169
Fannie Mae Connecticut Avenue Securities, "1M1", Series 2016-C02, 2.596%**, 9/25/2028	185,575	187,775
Federal Home Loan Mortgage Corp.:		
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	736,813	42,332
"JI", Series 3558, Interest Only, 4.5%, 12/15/2023	1,651	0
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	262,803	18,628
"C31", Series 303, Interest Only, 4.5%, 12/15/2042	624,425	120,448
"DZ", Series 4253, 4.75%, 9/15/2043	1,125,559	1,265,947
"HI", Series 2934, Interest Only, 5.0%, 2/15/2020	51,775	3,243
"WI", Series 3010, Interest Only, 5.0%, 7/15/2020	83,806	4,948
"SP", Series 4047, Interest Only, 6.208%***, 12/15/2037	338,118	40,321
"JS", Series 3572, Interest Only, 6.358%***, 9/15/2039	405,420	64,001
Federal National Mortgage Association:		
"4", Series 406, Interest Only, 4.0%, 9/25/2040	148,339	21,666
"KZ", Series 2010-134, 4.5%, 12/25/2040	219,771	239,772
"BI", Series 2010-13, Interest Only, 5.0%, 12/25/2038	19,726	334
"PI", Series 2006-20, Interest Only, 6.227%***, 11/25/2030	289,930	42,884
"SI", Series 2007-23, Interest Only, 6.317%***, 3/25/2037	189,737	34,509
Government National Mortgage Association:		
"GI", Series 2014-146, Interest Only, 3.5%, 9/20/2029	1,657,263	193,832
"GC", Series 2010-101, 4.0%, 8/20/2040	200,000	227,647
"ME", Series 2014-4, 4.0%, 1/16/2044	400,000	462,896
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	226,518	21,936
"HI", Series 2015-77, Interest Only, 4.0%, 5/20/2045	403,186	56,288
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044	66,559	8,141
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	204,243	32,503
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	210,412	31,761
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	201,125	30,132
"AI", Series 2007-38, Interest Only, 6.018%***, 6/16/2037	56,148	8,850
JPMorgan Mortgage Trust, "2A1", Series 2006-A2, 2.993%**, 4/25/2036	206,064	187,964
Merrill Lynch Mortgage Investors Trust, "2A", Series 2003-A6, 2.771%**, 10/25/2033	49,923	49,526
Wells Fargo Mortgage-Backed Securities Trust, "2A3",Series 2004-EE, 2.952%**, 12/25/2034	66,224	65,358
Total Collateralized Mortgage Obligations (Cost $3,572,490)		**3,669,334**
Government & Agency Obligations 31.3%		
Other Government Related (d) 0.7%		
Perusahaan Penerbit SBSN, 144A, 4.325%, 5/28/2025	200,000	**206,500**
Sovereign Bonds 3.5%		
Dominican Republic, 144A, 6.875%, 1/29/2026	100,000	110,350
Government of Indonesia, Series FR56, 8.375%, 9/15/2026	IDR 1,340,000,000	107,584
KazAgro National Management Holding JSC, 144A, 4.625%, 5/24/2023	200,000	182,520
Republic of Argentina-Inflation Linked Bond, 5.83%, 12/31/2033	ARS 375	157

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

		Principal Amount ($)(a)	Value ($)
Republic of Hungary:			
4.0%, 3/25/2019		200,000	207,500
Series 19/A, 6.5%, 6/24/2019	HUF	11,600,000	46,286
Republic of Slovenia:			
144A, 4.75%, 5/10/2018		200,000	210,356
144A, 5.5%, 10/26/2022		100,000	113,530
Republic of Uruguay, 5.1%, 6/18/2050		40,000	39,800
			1,018,083

U.S. Treasury Obligations 27.1%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bonds:		
2.5%, 2/15/2046	30,000	31,239
3.0%, 11/15/2045	30,000	34,495
U.S. Treasury Notes:		
1.0%, 8/31/2016 (f)	1,630,000	1,631,888
1.0%, 9/30/2016	500,000	500,807
1.375%, 4/30/2021	35,000	35,604
1.5%, 5/31/2019	232,600	237,852
1.625%, 12/31/2019	109,000	112,010
1.625%, 2/15/2026	5,130,000	5,187,712
1.625%, 5/15/2026	45,000	45,550
		7,817,157
Total Government & Agency Obligations (Cost $8,859,932)		**9,041,740**

Short-Term U.S. Treasury Obligations 1.3%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bills:		
0.345%****, 8/11/2016 (e)	15,000	14,997
0.44%****, 12/1/2016 (e)	365,000	364,558
Total Short-Term U.S. Treasury Obligations (Cost $379,312)		**379,555**

Loan Participations and Assignments 4.6%

Senior Loans**

	Principal Amount ($)(a)	Value ($)
American Rock Salt Holdings LLC, First Lien Term Loan, 4.75%, 5/20/2021	102,900	96,597
Avis Budget Car Rental LLC, Term Loan, 3.25%, 3/15/2022	58,342	58,512
Calpine Corp., Term Loan B5, 3.5%, 5/27/2022	193,050	191,320
DaVita HealthCare Partners, Inc., Term Loan B, 3.5%, 6/24/2021	68,600	68,886
Goodyear Tire & Rubber Co., Second Lien Term Loan, 3.75%, 4/30/2019	110,000	110,327
Level 3 Financing, Inc., Term Loan B2, 3.5%, 5/31/2022	60,000	59,873
MacDermid, Inc.:		
First Lien Term Loan, 5.5%, 6/7/2020	53,350	52,800
Term Loan B2, 5.5%, 6/7/2020	29,624	29,300
MEG Energy Corp., Term Loan, 3.75%, 3/31/2020	251,446	222,126
NRG Energy, Inc., Term Loan B, 2.75%, 7/2/2018	115,739	114,899
Quebecor Media, Inc., Term Loan B1, 3.25%, 8/17/2020	87,525	86,358
Valeant Pharmaceuticals International, Inc.:		
Term Loan B, 4.5%, 2/13/2019	132,992	129,626
Term Loan B, 4.75%, 12/11/2019	112,212	109,266
Total Loan Participations and Assignments (Cost $1,375,201)		**1,329,890**

Convertible Bond 0.4%

Materials

	Principal Amount ($)(a)	Value ($)
GEO Specialty Chemicals, Inc., 144A, 7.5%, 10/30/2018 (PIK) (Cost $125,259)	127,164	**128,405**

Preferred Security 0.3%

Materials

	Principal Amount ($)(a)	Value ($)
Hercules, Inc., 6.5%, 6/30/2029 (Cost $62,050)	95,000	**78,138**

Common Stocks 1.2%

	Shares	Value ($)
Consumer Discretionary 0.0%		
Dawn Holdings, Inc.* (g)	1	**3,118**
Financials 1.2%		
Two Harbors Investment Corp. (REIT)	39,286	**336,288**
Industrials 0.0%		
Congoleum Corp.*	2,500	0
Quad Graphics, Inc.	25	582
		582
Materials 0.0%		
GEO Specialty Chemicals, Inc.*	13,196	**4,784**
Total Common Stocks (Cost $356,387)		**344,772**

Warrant 0.0%

Materials

	Shares	Value ($)
Hercules Trust II, Expiration Date 3/31/2029* (Cost $17,432)	85	**215**

Exchange-Traded Fund 4.4%

	Shares	Value ($)
iShares iBoxx $ High Yield Corporate Bond ETF (Cost $1,239,900)	15,000	**1,270,350**

Call Options Purchased 0.0%

Options on Interest Rate Swap Contracts

	Contract Amount	Value ($)
Pay Fixed Rate — 4.19% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[1]	1,500,000	6
Pay Fixed Rate — 4.32% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	1,400,000	3
Total Call Options Purchased (Cost $127,165)		**9**

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

	Contract Amount	Value ($)
Put Options Purchased 0.8%		
Options on Interest Rate Swap Contracts		
Receive Fixed Rate — 2.19% – Pay Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[1]	1,500,000	107,277
Receive Fixed Rate — 2.32% – Pay Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	1,400,000	115,626
Total Put Options Purchased (Cost $98,573)		**222,903**

	Shares	Value ($)
Securities Lending Collateral 5.3%		
Daily Assets Fund "Capital Shares", 0.51% (h) (i) (Cost $1,522,890)	1,522,890	**1,522,890**
Cash Equivalents 15.2%		
Deutsche Central Cash Management Government Fund, 0.44% (h) (Cost $4,381,382)	4,381,382	**4,381,382**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $29,858,810)†	104.7	**30,232,747**
Other Assets and Liabilities, Net	(4.7)	**(1,365,789)**
Net Assets	100.0	**28,866,958**

The following table represents a bond that is in default:

Security	Coupon	Maturity Date		Principal Amount	Cost ($)	Value ($)
Energy Future Holdings Corp.*	6.5%	11/15/2024	USD	100,000	62,606	50,000

* 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, 2016.

*** These securities are shown at their current rate as of June 30, 2016.

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

† The cost for federal income tax purposes was $29,865,199. At June 30, 2016, net unrealized appreciation for all securities based on tax cost was $367,548. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $728,535 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $360,987.

(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, 2016 amounted to $1,495,841, which is 5.2% of net assets.

(c) When-issued security.

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

(e) At June 30, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At June 30, 2016, 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	3,118	.01

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

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

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

CLO: Collateralized Loan Obligation

Interest Only: Interest Only (IO) bonds represent the "interest only" portion of payments on a pool of underlying mortgages or mortgage-backed securities. IO securities are subject to prepayment risk of the pool of underlying mortgages.

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at June 30, 2016 is 0.65%.

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

REIT: Real Estate Investment Trust

SBSN: Surat Berharga Syariah Negara (Islamic Based Government Securities)

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

At June 30, 2016, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year U.S. Treasury Note	USD	9/21/2016	33	4,388,484	8,696
Ultra Long U.S. Treasury Bond	USD	9/21/2016	26	4,845,750	214,367
Total unrealized appreciation					**223,063**

At June 30, 2016, 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[1]	2/1/2017	50,400	(95)
Receive Fixed — 3.32% – Pay Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[2]	2/1/2017	50,631	(62)
Total Call Options				**101,031**	**(157)**
Put Options					
Pay Fixed — 2.0% – Receive Floating — 3-Month LIBOR	8/15/2016 8/15/2046	1,500,000[3]	8/11/2016	28,800	(69,284)
Pay Fixed — 2.22% – Receive Floating — 3-Month LIBOR	7/13/2016 7/13/2046	1,500,000[4]	7/11/2016	28,200	(133,221)
Pay Fixed — 3.19% – Receive Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[1]	2/1/2017	50,400	(113,273)
Pay Fixed — 3.32% – Receive Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[2]	2/1/2017	50,631	(121,745)
Total Put Options				**158,031**	**(437,523)**
Total				**259,062**	**(437,680)**

(j) Unrealized depreciation on written options on interest rate swap contracts at June 30, 2016 was $178,618.

At June 30, 2016, open credit default swap contracts sold were as follows:

Centrally Cleared Swap

Expiration Date	Notional Amount ($) (k)	Currency	Fixed Cash Flows Received	Underlying Reference Obligation	Value ($)	Unrealized Appreciation ($)
6/20/2021	900,000	EUR	5.0%	Markit iTraxx Europe Crossover Index Series 25 Version 1	65,588	**20,880**

(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.

At June 30, 2016, 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) ($)
3/16/2016 3/16/2017	1,000,000	Floating — 3-Month LIBOR	Fixed — 1.0%	5,028	4,487
12/16/2015 9/18/2017	3,600,000	Fixed — 1.557%	Floating — 3-Month LIBOR	(53,339)	(55,311)
12/16/2015 9/16/2020	2,000,000	Floating — 3-Month LIBOR	Fixed — 2.214%	120,351	121,137
3/16/2016 3/16/2025	4,100,000	Fixed — 2.25%	Floating — 3-Month LIBOR	(356,821)	(340,819)
12/16/2015 9/16/2025	3,000,000	Fixed — 2.64%	Floating — 3-Month LIBOR	(372,256)	(357,008)
12/16/2015 9/17/2035	200,000	Fixed — 2.938%	Floating — 3-Month LIBOR	(43,476)	(39,585)
12/16/2015 9/18/2045	500,000	Floating — 3-Month LIBOR	Fixed — 2.998%	144,736	128,910
Total net unrealized depreciation					**(538,189)**

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

Counterparties:

1 JPMorgan Chase Securities, Inc.

2 BNP Paribas

3 Nomura International PLC

4 Citigroup, Inc.

As of June 30, 2016, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	210,526	BRL	800,000	7/8/2016	37,912	Macquarie Bank Ltd.
MXN	2,042,900	USD	115,454	8/5/2016	4,096	Citigroup, Inc.
USD	336,680	ZAR	5,320,000	8/5/2016	21,893	Morgan Stanley
ZAR	5,320,000	USD	361,611	8/5/2016	3,038	JPMorgan Chase Securities, Inc.
USD	595,977	BRL	2,200,000	8/22/2016	77,661	BNP Paribas
USD	293,420	AUD	400,000	8/23/2016	4,299	Australia & New Zealand Banking Group Ltd.
AUD	800,000	USD	600,660	8/23/2016	5,222	Australia & New Zealand Banking Group Ltd.
USD	263,652	ZAR	4,000,000	9/27/2016	3,101	BNP Paribas
ZAR	4,000,000	USD	271,859	9/27/2016	5,106	BNP Paribas
Total unrealized appreciation					**162,328**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
BRL	800,000	USD	221,607	7/8/2016	(26,832)	Macquarie Bank Ltd.
BRL	2,200,000	USD	602,538	8/22/2016	(71,099)	BNP Paribas
AUD	800,000	USD	593,164	8/23/2016	(2,275)	Macquarie Bank Ltd.
EUR	530,000	USD	584,829	9/27/2016	(5,272)	Nomura International PLC
TWD	9,500,000	USD	292,478	11/30/2016	(2,986)	Nomura International PLC
TWD	9,500,000	USD	295,376	12/22/2016	(222)	Nomura International PLC
TWD	9,500,000	USD	292,758	12/29/2016	(2,884)	Nomura International PLC
Total unrealized depreciation					**(111,570)**	

Currency Abbreviations

ARS	Argentine Peso	HUF	Hungarian Forint	TWD	Taiwan Dollar
AUD	Australian Dollar	IDR	Indonesian Rupiah	USD	United States Dollar
BRL	Brazilian Real	INR	Indian Rupee	ZAR	South African Rand
EUR	Euro	MXN	Mexican Peso		

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, 2016 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	$ —	$ 5,425,158	$ —	$ 5,425,158
Mortgage-Backed Securities Pass-Throughs	—	728,812	—	728,812
Asset-Backed	—	531,184	—	531,184
Commercial Mortgage-Backed Securities	—	1,178,010	—	1,178,010
Collateralized Mortgage Obligations	—	3,669,334	—	3,669,334
Government & Agency Obligations	—	9,041,740	—	9,041,740
Short-Term U.S. Treasury Obligations	—	379,555	—	379,555
Loan Participations and Assignments	—	1,329,890	—	1,329,890
Convertible Bond	—	—	128,405	128,405
Preferred Security	—	78,138	—	78,138
Common Stocks (l)	336,870	—	7,902	344,772
Warrant	—	—	215	215
Exchange-Traded Fund	1,270,350	—	—	1,270,350
Short-Term Investments (l)	5,904,272	—	—	5,904,272
Derivatives (m)				
Purchased Options	—	222,912	—	222,912
Futures Contracts	223,063	—	—	223,063
Credit Default Swap Contracts	—	20,880	—	20,880
Interest Rate Swap Contracts	—	254,534	—	254,534
Forward Foreign Currency Exchange Contracts	—	162,328	—	162,328
Total	**$ 7,734,555**	**$ 23,022,475**	**$ 136,522**	**$ 30,893,552**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (m)				
Written Options	$ —	$ (437,680)	$ —	$ (437,680)
Interest Rate Swap Contracts	—	(792,723)	—	(792,723)
Forward Foreign Currency Exchange Contracts	—	(111,570)	—	(111,570)
Total	**$ —**	**$ (1,341,973)**	**$ —**	**$ (1,341,973)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2016.

(l) See Investment Portfolio for additional detailed categorizations.

(m) 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, 2016 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $23,954,538) — including $1,495,841 of securities loaned	$	24,328,475
Investments in Daily Assets Fund (cost $1,522,890)*		1,522,890
Investment in Deutsche Central Cash Management Government Fund (cost $4,381,382)		4,381,382
Total investments in securities, at value (cost $29,858,810)		30,232,747
Cash		222,033
Foreign currency, at value (cost $605,665)		593,031
Receivable for investments sold		88,925
Receivable for Fund shares sold		65
Dividends receivable		9,034
Interest receivable		158,640
Receivable for variation margin on centrally cleared swaps		10,452
Unrealized appreciation on forward foreign currency exchange contracts		162,328
Foreign taxes recoverable		594
Other assets		599
Total assets	$	31,478,448
Liabilities		
Payable upon return of securities loaned		1,522,890
Payable for investments purchased		211,622
Payable for investments purchased — when-issued/delayed delivery securities		109,681
Payable for Fund shares redeemed		29,768
Payable for variation margin on futures contracts		26,120
Options written, at value (premiums received $259,062)		437,680
Unrealized depreciation on forward foreign currency exchange contracts		111,570
Accrued Trustees' fees		728
Other accrued expenses and payables		161,431
Total liabilities		2,611,490
Net assets, at value	**$**	**28,866,958**
Net Assets Consist of		
Distributions in excess of net investment income		(96,706)
Net unrealized appreciation (depreciation) on:		
Investments		373,937
Swap contracts		(517,309)
Futures		223,063
Foreign currency		38,028
Written options		(178,618)
Accumulated net realized gain (loss)		(4,598,949)
Paid-in capital		33,623,512
Net assets, at value	**$**	**28,866,958**
Class A		
Net Asset Value, offering and redemption price per share ($28,866,958 ÷ 2,970,645 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**9.72**

* 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, 2016 (Unaudited)

Investment Income		
Income:		
Interest (net of foreign taxes withheld of $176)	$	386,611
Dividends		24,110
Income distributions — Deutsche Central Cash Management Government Fund		11,658
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		1,962
Total income		424,341
Expenses:		
Management fee		81,704
Administration fee		14,855
Services to shareholders		437
Custodian fee		32,018
Professional fees		42,350
Reports to shareholders		12,208
Trustees' fees and expenses		1,834
Pricing service fee		21,336
Other		2,702
Total expenses before expense reductions		209,444
Expense reductions		(107,402)
Total expenses after expense reductions		102,042
Net investment income		**322,299**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(1,565,457)
Swap contracts		(258,240)
Futures		271,930
Written options		46,345
Foreign currency		209,460
		(1,295,962)
Change in net unrealized appreciation (depreciation) on:		
Investments		2,061,378
Swap contracts		(355,435)
Futures		264,711
Written options		(328,465)
Foreign currency		(331,299)
		1,310,890
Net gain (loss)		**14,928**
Net increase (decrease) in net assets resulting from operations	**$**	**337,227**

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, 2016 (Unaudited)	Year Ended December 31, 2015
Operations:		
Net investment income	$ 322,299	$ 1,762,667
Net realized gain (loss)	(1,295,962)	(2,050,038)
Change in net unrealized appreciation (depreciation)	1,310,890	(941,379)
Net increase (decrease) in net assets resulting from operations	337,227	(1,228,750)
Distributions to shareholders from:		
Net investment income:		
Class A	(2,341,380)	(2,026,151)
Total distributions	(2,341,380)	(2,026,151)
Fund share transactions:		
Class A		
Proceeds from shares sold	966,096	1,567,297
Reinvestment of distributions	2,341,380	2,026,151
Payments for shares redeemed	(5,225,113)	(21,135,428)
Net increase (decrease) in net assets from Class A share transactions	(1,917,637)	(17,541,980)
Increase (decrease) in net assets	(3,921,790)	(20,796,881)
Net assets at beginning of period	32,788,748	53,585,629
Net assets at end of period (including distributions in excess of net investment income and undistributed net investment income of $96,706 and $1,922,375, respectively)	**$ 28,866,958**	**$ 32,788,748**

Other Information		
Class A		
Shares outstanding at beginning of period	3,142,272	4,786,192
Shares sold	93,710	142,362
Shares issued to shareholders in reinvestment of distributions	245,171	184,028
Shares redeemed	(510,508)	(1,970,310)
Net increase (decrease) in Class A shares	(171,627)	(1,643,920)
Shares outstanding at end of period	**2,970,645**	**3,142,272**

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

Financial Highlights

Class A	Six Months Ended 6/30/16 (Unaudited)	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data						
Net asset value, beginning of period	**$10.43**	**$11.20**	**$11.53**	**$12.60**	**$11.90**	**$11.96**
Income (loss) from investment operations:						
Net investment income[a]	.11	.40	.49	.49	.57	.63
Net realized and unrealized gain (loss)	.01	(.72)	(.23)	(.59)	.92	(.01)
Total from investment operations	.12	(.32)	.26	(.10)	1.49	.62
Less distributions from:						
Net investment income	(.83)	(.45)	(.59)	(.62)	(.76)	(.68)
Net realized gains	—	—	—	(.35)	(.03)	—
Total distributions	(.83)	(.45)	(.59)	(.97)	(.79)	(.68)
Net asset value, end of period	**$ 9.72**	**$10.43**	**$11.20**	**$11.53**	**$12.60**	**$11.90**
Total Return (%)[b]	1.23**	(3.02)	2.23	(1.04)	13.08	5.31
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	29	33	54	61	73	69
Ratio of expenses before expense reductions (%)	1.41*	1.15	1.08	1.02	.99	.99
Ratio of expenses after expense reductions (%)	.69*	.70	.77	.74	.77	.79
Ratio of net investment income (%)	2.17*	3.67	4.23	4.16	4.72	5.38
Portfolio turnover rate (%)	110**	185	185	183	164	144

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. The 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. As of period end, any securities on loan were collateralized by cash. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund. During the six months ended June 30, 2016, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of June 30, 2016) on the cash collateral invested in Daily Assets Fund. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as corporate bonds in the Investment Portfolio. 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. If affiliates of the Advisor participate in the primary and secondary market for senior loans, legal limitations may restrict the Fund's ability to participate in restructuring or acquiring some senior loans. 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, a portion of which may be recoverable. Based upon the current interpretation of the tax rules and regulations, estimated tax liabilities and recoveries 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, 2015, the Fund had net tax basis capital loss carryforwards of approximately $3,338,000, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($1,955,000) and long-term losses ($1,383,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $14,400,000 to $15,300,000.

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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to $7,618,000, and the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $0 to $900,000.

Options. An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. 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, 2016, 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, 2016 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, 2016, the investment in purchased option contracts had a total value generally indicative of a range from approximately $67,000 to $223,000, and written option contracts had a total value generally indicative of a range from approximately $156,000 to $438,000.

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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $9,234,000 to $14,004,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $4,285,000.

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, 2016, 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, 2016, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2016, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $1,516,000 to

$11,487,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $427,000 to $11,598,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $0 to approximately $618,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2016 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)	$ 222,912	$ —	$ 254,534	$ 223,063	$ 700,509
Credit Contracts (b)	—	—	20,880	—	20,880
Foreign Exchange Contracts (c)	—	162,328	—	—	162,328
	$ 222,912	**$ 162,328**	**$ 275,414**	**$ 223,063**	**$ 883,717**

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.

(c) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	Written Options	Forward Contracts	Swap Contracts	Total
Interest Rate Contracts (a) (b)	$ (437,680)	$ —	$ (792,723)	$ (1,230,403)
Foreign Exchange Contracts (c)	—	(111,570)	—	(111,570)
	$ (437,680)	**$ (111,570)**	**$ (792,723)**	**$ (1,341,973)**

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 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, 2016 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Purchased Options	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ (64,155)	$ 46,345	$ —	$ (88,986)	$ 271,930	$ 165,134
Credit Contracts (a)	—	—	—	(169,254)	—	(169,254)
Foreign Exchange Contracts (b)	—	—	195,828	—	—	195,828
	$ (64,155)	**$ 46,345**	**$ 195,828**	**$ (258,240)**	**$ 271,930**	**$ 191,708**

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

(a) Net realized gain (loss) from investments (includes purchased options), written options, swap contracts and futures, respectively

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

Change in Net Unrealized Appreciation (Depreciation)	Purchased Options	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ 220,059	$ (328,465)	$ —	$ (408,596)	$ 264,711	$ (252,291)
Credit Contracts (a)	—	—	—	53,161	—	53,161
Foreign Exchange Contracts (b)	—	—	(351,255)	—	—	(351,255)
	$ 220,059	**$ (328,465)**	**$ (351,255)**	**$ (355,435)**	**$ 264,711**	**$ (550,385)**

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, 2016, 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.	$ 9,521	$ —	$ —	$ 9,521
BNP Paribas	201,497	(192,906)	—	8,591
Citigroup, Inc.	4,096	(4,096)	—	—
JPMorgan Chase Securities, Inc.	110,321	(110,321)	—	—
Macquarie Bank Ltd.	37,912	(29,107)	—	8,805
Morgan Stanley	21,893	—	—	21,893
	$ 385,240	**$ (336,430)**	**$ —**	**$ 48,810**

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
BNP Paribas	$ 192,906	$ (192,906)	$ —	$ —
Citigroup, Inc.	133,221	(4,096)	—	129,125
JPMorgan Chase Securities, Inc.	113,368	(110,321)	—	3,047
Macquarie Bank Ltd.	29,107	(29,107)	—	—
Nomura International PLC	80,648	—	—	80,648
	$ 549,250	**$ (336,430)**	**$ —**	**$ 212,820**

C. Purchases and Sales of Securities

During the six months ended June 30, 2016, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $20,561,384 and $33,162,122, respectively. Purchases and sales of U.S. Treasury obligations aggregated $6,053,308 and $1,670,178, respectively.

For the six months ended June 30, 2016, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	7,100,000	$ 305,407
Options expired	(1,300,000)	(46,345)
Outstanding, end of period	**5,800,000**	**$ 259,062**

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, 2016, 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, 2016 through April 30, 2017, 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 0.68%.

For the six months ended June 30, 2016, fees waived and/or expenses reimbursed amounted to $107,402.

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, 2016, the Administration Fee was $14,855, of which $2,370 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $73, of which $37 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $8,386, all of which is unpaid.

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

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $173.

E. Investing in High-Yield Securities

High-yield debt securities or junk bonds are generally regarded as speculative with respect to the issuer's continuing ability to meet principal and interest payments. The Fund's performance could be hurt if an issuer of a debt security suffers an adverse change in financial condition that results in the issuer not making timely payments of interest or principal, a security downgrade or an inability to meet a financial obligation. High-yield debt securities' total return and yield may generally be expected to fluctuate more than the total return and yield of investment-grade debt securities. A real or perceived economic downturn or an increase in market interest rates could cause a decline in the value of high-yield debt securities, result in increased redemptions and/or result in increased portfolio turnover, which could result in a decline in net asset value of the Fund, reduce liquidity for certain investments and/or increase costs. High-yield debt securities are often thinly traded and can be more difficult to sell and value accurately than investment-grade debt securities as there may be no established secondary market. Investments in high yield debt securities could increase liquidity risk for the Fund. In addition, the market for high-yield debt securities can experience sudden and sharp volatility which is generally associated more with investments in stocks.

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, 2016, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 53% and 43%.

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, 2016.

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, 2016 to June 30, 2016).

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, 2016

Actual Fund Return	**Class A**
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$1,012.30
Expenses Paid per $1,000*	$ 3.45

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/16	$1,000.00
Ending Account Value 6/30/16	$1,021.43
Expenses Paid per $1,000*	$ 3.47

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Unconstrained Income VIP	.69%

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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 3rd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the three- and five-year periods and has underperformed its benchmark in the one-year period ended December 31, 2014. 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, 2014). 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, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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 Management

VS2UI-3 (R-028389-5 8/16)

Dreyfus Investment Portfolios, MidCap Stock Portfolio

SEMIANNUAL REPORT
June 30, 2016

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

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THE FUND

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Dreyfus Investment Portfolios,
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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, 2016 through June 30, 2016. 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.

Financial markets experienced heightened turbulence over the first half of 2016 when global economic challenges fueled dramatic swings in market sentiment. At the start of the year, investors reacted cautiously to an economic slowdown in China, sluggish growth in Europe, plummeting commodity prices, and rising short-term interest rates in the United States. These worries sparked sharp declines in U.S. and global equity markets, while high-quality bonds gained value as investors flocked to traditional safe havens.

Investor sentiment subsequently rebounded when U.S. monetary policymakers refrained from additional rate hikes, major central banks eased their monetary policies further, and commodity prices improved. Stocks rallied strongly during the spring, recouping earlier losses, and bonds continued to benefit from robust investor demand. Still, by June, uncertainty continued to dominate the capital markets amid worries about Great Britain's exit from the European Union and disappointing job growth in the United States.

We remain encouraged by the resilience of the stock and bond markets, but we expect volatility to persist until global economic uncertainty abates. In addition, wide differences in underlying fundamental and technical influences across various asset classes, economic sectors, and regional markets suggest that selectivity may be an important determinant of investment success over the second half of 2016. As always, we encourage you to discuss the implications of our observations with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
July 15, 2016

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2016 through June 30, 2016, as provided by C. Wesley Boggs, William S. Cazalet, CAIA, and Ronald P. Gala, CFA, Portfolio Managers

Market and Fund Performance Overview

For the six-month period ended June 30, 2016, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of 3.92%, and its Service shares produced a total return of 3.75%.[1] In comparison, the fund's benchmark, the Standard & Poor's MidCap 400® Index (the "S&P 400 Index"), produced a total return of 7.93% for the same period.[2]

MidCap stocks posted relatively strong total returns, on average, over the first half of 2016 amid heightened market volatility sparked by global and domestic economic uncertainty. The fund produced lower returns than its benchmark, mainly due to security selection shortfalls in the energy, industrials, and consumer staples sectors.

The Fund's Investment Approach

The fund seeks investment results that are greater than the total return performance of publicly traded common stocks of medium-sized 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 mid-cap 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.

Mildly Positive Returns Masked Heightened Volatility

Mid-cap stocks generally proved volatile over the first half of 2016 as investor sentiment vacillated between concerns about the global economy and optimism regarding generally solid U.S. business fundamentals. In January 2016, disappointing economic data in China sparked renewed weakness in commodity prices, and investors again grew concerned about the potential impact of China's troubles on the United States. In addition, U.S. investors worried that higher short-term interest rates from the Federal Reserve Board (the "Fed") might weigh on the domestic economic recovery. Consequently, U.S. stocks declined particularly sharply at the start of the year.

The market's slide continued into February, but strong U.S. economic data and better-than-expected corporate earnings helped trigger a rebound later in the month. The rally continued through the spring after the Fed refrained from implementing additional rate hikes, commodity prices rebounded, and foreign currencies strengthened against the U.S. dollar. Although disappointing monthly job data in the United States and a vote in the United Kingdom to exit the European Union introduced renewed market turmoil in June, U.S. markets bounced back quickly, and the S&P 400 Index ended the reporting period with a higher total return than small- and large-cap stocks.

Stock Selection Dampened Relative Results

While the fund participated significantly in the mid-cap stock market's gains, its results compared to its benchmark were constrained over the last four months of the reporting period. In addition, relative performance was undercut by the fund's stock selections in the energy sector, where oil refiners struggled with a challenging environment for refining margins. Other securities in the oil, gas, and consumable fuels industry also weighed on the fund's relative performance.

In the industrials sector, overweighted exposure to airlines hurt relative results when the entire industry group underperformed our expectations. Jet Blue Airways and Alaska Air Group were hit hard in this environment, and the latter airline also encountered tepid investor response to its acquisition of Virgin America. Among consumer staples companies, the fund's holdings in the food and staples retailing industry fared relatively poorly. For example, grocery distributor *SUPERVALU* was hurt by persistently weak sales over the first half of the year. Among individual stocks in other areas, information technology company Nuance Communications, which develops voice recognition software, lost value after reporting disappointing sales for the second quarter and lowering 2016 full-year sales guidance.

On a more positive note, the fund achieved relatively strong results in the materials sector, where overweighted exposure to metals-and-mining companies bolstered returns. Metals service center operator Reliance Steel & Aluminum posted better-than-expected results both times it reported earnings during the period. In other areas, electric utility Westar Energy advanced after receiving a takeover offer at a premium to its stock price at the time. Weakness in the consumer staples sector was partly offset by gains posted by food additives specialist Ingredion, which twice reported better-than-expected quarterly earnings and raised its earnings forecast.

Companies With Solid Fundamentals

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 mid-cap companies and industry groups. Indeed, recent bouts of volatility have provided opportunities to purchase the stocks of companies ranked highly by our process. When 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, 2016

Please note, the position in any security highlighted with italicized typeface was sold during the reporting period.
Equities 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 mid-cap 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 midsized-company segment of the U.S. market. 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 Dreyfus Investment Portfolios, MidCap Stock Portfolio from January 1, 2016 to June 30, 2016. 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, 2016

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.31	$ 5.57
Ending value (after expenses)	$1,039.20	$1,037.50

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, 2016

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.27	$ 5.52
Ending value (after expenses)	$1,020.64	$1,019.39

† *Expenses are equal to the fund's annualized expense ratio of .85% for Initial shares and 1.10% for Service shares, multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS
June 30, 2016 (Unaudited)

Common Stocks - 99.7%	Shares		Value ($)
Banks - 4.5%			
Associated Banc-Corp	99,835		1,712,170
BancorpSouth	74,090		1,681,102
Cathay General Bancorp	69,785		1,967,937
Commerce Bancshares	4,960		237,584
East West Bancorp	15,555		531,670
First Horizon National	31,640		435,999
Synovus Financial	41,500		1,203,085
			7,769,547
Capital Goods - 10.3%			
Allison Transmission Holdings	6,160		173,897
BWX Technologies	60,550		2,165,873
GATX	36,795	[a]	1,617,876
HD Supply Holdings	60,955	[b]	2,122,453
Huntington Ingalls Industries	4,305		723,369
KBR	58,035		768,383
Lennox International	20,025		2,855,565
Owens Corning	34,180		1,760,954
Spirit AeroSystems Holdings, Cl. A	44,305	[b]	1,905,115
Wabtec	24,880	[a]	1,747,322
Woodward	31,350		1,807,014
			17,647,821
Commercial & Professional Services - 1.2%			
Deluxe	29,910		**1,985,127**
Consumer Durables & Apparel - 5.0%			
Brunswick	55,730		2,525,684
NVR	1,630	[b]	2,901,954
Tempur Sealy International	42,440	[a,b]	2,347,781
TRI Pointe Group	59,135	[b]	698,976
			8,474,395
Consumer Services - 2.4%			
Brinker International	40,100		1,825,753
Darden Restaurants	31,965		2,024,663
Wyndham Worldwide	4,580	[a]	326,233
			4,176,649
Diversified Financials - 3.0%			
Affiliated Managers Group	11,520	[b]	1,621,670
CBOE Holdings	11,375		757,803

Common Stocks - 99.7% (continued)	Shares		Value ($)
Diversified Financials - 3.0% (continued)			
SEI Investments	57,420		2,762,476
			5,141,949
Energy - 5.0%			
Dril-Quip	36,420	b	2,128,021
HollyFrontier	54,130		1,286,670
Oceaneering International	35,005		1,045,249
Tesoro	8,285		620,712
Western Refining	40,700	a	839,641
World Fuel Services	56,270		2,672,262
			8,592,555
Food & Staples Retailing - 1.5%			
Sprouts Farmers Markets	111,610	a,b	**2,555,869**
Food, Beverage & Tobacco - 4.8%			
Boston Beer, Cl. A	12,765	a,b	2,183,198
Dean Foods	136,730		2,473,446
Ingredion	27,910		3,611,833
			8,268,477
Health Care Equipment & Services - 5.2%			
Allscripts Healthcare Solutions	182,650	a,b	2,319,655
Hologic	70,325	b	2,433,245
Teleflex	18,985		3,366,230
Tenet Healthcare	9,000	b	248,760
VCA	9,065	b	612,885
			8,980,775
Insurance - 6.6%			
American Financial Group	4,155		307,179
Aspen Insurance Holdings	20,750		962,385
CNO Financial Group	137,130		2,394,290
First American Financial	4,330		174,153
Old Republic International	108,270		2,088,528
Primerica	31,625	a	1,810,215
Reinsurance Group of America	13,015		1,262,325
The Hanover Insurance Group	26,445		2,237,776
			11,236,851
Materials - 6.3%			
Bemis	15,530		799,640
Cabot	54,605		2,493,264
PolyOne	34,805		1,226,528
Reliance Steel & Aluminum	41,040		3,155,976

Common Stocks - 99.7% (continued)	Shares		Value ($)
Materials - 6.3% (continued)			
Steel Dynamics	55,055		1,348,848
Worthington Industries	39,975		1,690,942
			10,715,198
Media - .9%			
New York Times, Cl. A	123,425		**1,493,442**
Pharmaceuticals, Biotechnology & Life Sciences - 4.1%			
Agilent Technologies	19,260		854,374
Charles River Laboratories International	31,000	b	2,555,640
Mettler-Toledo International	9,440	b	3,444,845
United Therapeutics	1,175	b	124,456
			6,979,315
Real Estate - 10.3%			
General Growth Properties	72,075	c	2,149,276
Hospitality Properties Trust	92,915	c	2,675,952
Kilroy Realty	20,475	c	1,357,288
Lamar Advertising, Cl. A	45,355	c	3,007,036
Tanger Factory Outlet Centers	66,070	c	2,654,693
Taubman Centers	36,895	c	2,737,609
Weingarten Realty Investors	76,180	c	3,109,668
			17,691,522
Retailing - 4.2%			
American Eagle Outfitters	163,000	a	2,596,590
Big Lots	52,340		2,622,757
Foot Locker	30,550		1,675,973
GNC Holdings, Cl. A	14,830		360,221
			7,255,541
Semiconductors & Semiconductor Equipment - .2%			
Integrated Device Technology	13,625	b	**274,271**
Software & Services - 10.4%			
Acxiom	42,690	b	938,753
ANSYS	6,445	b	584,884
Citrix Systems	28,685	b	2,297,382
Convergys	53,815	a	1,345,375
CoreLogic	48,810	b	1,878,209
DST Systems	6,274		730,482
Leidos Holdings	45,500		2,178,085
Manhattan Associates	32,740	b	2,099,616
Mentor Graphics	118,220		2,513,357
NeuStar, Cl. A	50,650	a,b	1,190,782

Common Stocks - 99.7% (continued)	Shares		Value ($)
Software & Services - 10.4% (continued)			
Nuance Communications	129,535	b	2,024,632
			17,781,557
Technology Hardware & Equipment - 5.2%			
Arrow Electronics	19,975	b	1,236,453
Belden	6,200		374,294
Ciena	132,510	b	2,484,562
Ingram Micro, Cl. A	37,295		1,297,120
InterDigital	16,820		936,538
NCR	93,865	b	2,606,631
			8,935,598
Telecommunication Services - .6%			
CenturyLink	34,705	a	**1,006,792**
Transportation - 2.5%			
Alaska Air Group	37,370	a	2,178,297
JetBlue Airways	131,750	b	2,181,780
			4,360,077
Utilities - 5.5%			
FirstEnergy	64,005		2,234,415
Great Plains Energy	86,820		2,639,328
NiSource	63,040		1,671,821
Westar Energy	52,690		2,955,382
			9,500,946
Total Common Stocks (cost $157,851,548)			**170,824,274**
Other Investment - .4%	Shares		Value ($)
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $645,866)	645,866	d	**645,866**
Investment of Cash Collateral for Securities Loaned - 5.3%			
Registered Investment Company;			
Dreyfus Institutional Cash Advantage Fund, Institutional Shares (cost $9,190,617)	9,190,617	d	**9,190,617**
Total Investments (cost $167,688,031)	**105.4%**		**180,660,757**
Liabilities, Less Cash and Receivables	**(5.4%)**		**(9,297,153)**
Net Assets	**100.0%**		**171,363,604**

[a] *Security, or portion thereof, on loan. At June 30, 2016, the value of the fund's securities on loan was $17,164,519 and the value of the collateral held by the fund was $17,388,406, consisting of cash collateral of $9,190,617 and U.S. Government & Agency securities valued at $8,197,789.*

[b] *Non-income producing security.*

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

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

STATEMENT OF INVESTMENTS (Unaudited) (continued)

Portfolio Summary (Unaudited) †	Value (%)
Software & Services	10.4
Capital Goods	10.3
Real Estate	10.3
Insurance	6.6
Materials	6.3
Money Market Investments	5.7
Utilities	5.5
Health Care Equipment & Services	5.2
Technology Hardware & Equipment	5.2
Consumer Durables & Apparel	5.0
Energy	5.0
Food, Beverage & Tobacco	4.8
Banks	4.5
Retailing	4.2
Pharmaceuticals, Biotechnology & Life Sciences	4.1
Diversified Financials	3.0
Transportation	2.5
Consumer Services	2.4
Food & Staples Retailing	1.5
Commercial & Professional Services	1.2
Media	.9
Telecommunication Services	.6
Semiconductors & Semiconductor Equipment	.2
	105.4

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

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2016 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments		
(including securities on loan, valued at $17,164,519)—Note 1(b):		
Unaffiliated issuers	157,851,548	170,824,274
Affiliated issuers	9,836,483	9,836,483
Cash		79,957
Dividends and securities lending income receivable		94,067
Prepaid expenses		1,900
		180,836,681
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		129,301
Liability for securities on loan—Note 1(b)		9,190,617
Payable for shares of Beneficial Interest redeemed		112,868
Accrued expenses		40,291
		9,473,077
Net Assets ($)		**171,363,604**
Composition of Net Assets ($):		
Paid-in capital		157,550,231
Accumulated undistributed investment income—net		601,243
Accumulated net realized gain (loss) on investments		239,404
Accumulated net unrealized appreciation (depreciation)		
on investments		12,972,726
Net Assets ($)		**171,363,604**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	115,039,203	56,324,401
Shares Outstanding	6,364,495	3,125,660
Net Asset Value Per Share ($)	**18.08**	**18.02**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2016 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	1,298,070
Affiliated issuers	1,816
Income from securities lending—Note 1(b)	22,882
Total Income	**1,322,768**
Expenses:	
Management fee—Note 3(a)	618,763
Distribution fees—Note 3(b)	63,977
Professional fees	30,730
Trustees' fees and expenses—Note 3(c)	23,307
Custodian fees—Note 3(b)	15,147
Prospectus and shareholders' reports	4,458
Shareholder servicing costs—Note 3(b)	937
Loan commitment fees—Note 2	1
Miscellaneous	6,935
Total Expenses	**764,255**
Less—reduction in fees due to earnings credits—Note 3(b)	(25)
Net Expenses	**764,230**
Investment Income—Net	**558,538**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	333,535
Net unrealized appreciation (depreciation) on investments	4,927,603
Net Realized and Unrealized Gain (Loss) on Investments	**5,261,138**
Net Increase in Net Assets Resulting from Operations	**5,819,676**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2015
Operations ($):		
Investment income—net	558,538	1,682,208
Net realized gain (loss) on investments	333,535	11,812,133
Net unrealized appreciation (depreciation) on investments	4,927,603	(17,983,109)
Net Increase (Decrease) in Net Assets Resulting from Operations	**5,819,676**	**(4,488,768)**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(1,238,123)	(944,587)
Service Shares	(437,208)	(179,129)
Net realized gain on investments:		
Initial Shares	(8,219,760)	(24,657,461)
Service Shares	(3,656,285)	(6,393,134)
Total Dividends	**(13,551,376)**	**(32,174,311)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	4,311,910	9,905,018
Service Shares	8,498,546	28,104,037
Dividends reinvested:		
Initial Shares	9,457,883	25,602,048
Service Shares	4,093,493	6,572,263
Cost of shares redeemed:		
Initial Shares	(16,489,682)	(44,189,452)
Service Shares	(3,494,439)	(12,307,883)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**6,377,711**	**13,686,031**
Total Increase (Decrease) in Net Assets	**(1,353,989)**	**(22,977,048)**
Net Assets ($):		
Beginning of Period	172,717,593	195,694,641
End of Period	**171,363,604**	**172,717,593**
Undistributed investment income—net	601,243	1,718,036
Capital Share Transactions (Shares):		
Initial Shares		
Shares sold	236,041	482,702
Shares issued for dividends reinvested	537,991	1,278,824
Shares redeemed	(919,418)	(2,221,204)
Net Increase (Decrease) in Shares Outstanding	**(145,386)**	**(459,678)**
Service Shares		
Shares sold	472,154	1,364,856
Shares issued for dividends reinvested	233,381	328,942
Shares redeemed	(195,009)	(611,910)
Net Increase (Decrease) in Shares Outstanding	**510,526**	**1,081,888**

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, 2016 (Unaudited)	Year Ended December 31, 2015	2014	2013	2012	2011
Per Share Data ($):						
Net asset value, beginning of period	18.95	23.03	20.87	15.68	13.16	13.17
Investment Operations:						
Investment income—net[a]	.07	.18	.14	.20	.23	.06
Net realized and unrealized gain (loss) on investments	.63	(.50)	2.35	5.24	2.36	.00[b]
Total from Investment Operations	.70	(.32)	2.49	5.44	2.59	.06
Distributions:						
Dividends from investment income—net	(.21)	(.14)	(.21)	(.25)	(.07)	(.07)
Dividends from net realized gain on investments	(1.36)	(3.62)	(.12)	-	-	-
Total Distributions	(1.57)	(3.76)	(.33)	(.25)	(.07)	(.07)
Net asset value, end of period	18.08	18.95	23.03	20.87	15.68	13.16
Total Return (%)	3.92[c]	(2.29)	12.09	34.99	19.67	.40
Ratios/ Supplemental Data (%):						
Ratio of total expenses to average net assets	.85[d]	.85	.85	.86	.85	.86
Ratio of net expenses to average net assets	.85[d]	.85	.85	.86	.85	.86
Ratio of net investment income to average net assets	.75[d]	.89	.64	1.11	1.58	.50
Portfolio Turnover Rate	40.25[c]	80.27	83.06	68.72	73.96	81.48
Net Assets, end of period ($ x 1,000)	115,039	123,354	160,482	158,682	128,410	123,187

[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, 2016 (Unaudited)	Year Ended December 31, 2015	2014	2013	2012	2011
Per Share Data ($):						
Net asset value, beginning of period	18.88	22.97	20.83	15.65	13.14	13.16
Investment Operations:						
Investment income—net[a]	.05	.15	.09	.16	.19	.02
Net realized and unrealized gain (loss) on investments	.61	(.52)	2.34	5.23	2.35	.01
Total from Investment Operations	.66	(.37)	2.43	5.39	2.54	.03
Distributions:						
Dividends from investment income—net	(.16)	(.10)	(.17)	(.21)	(.03)	(.05)
Dividends from net realized gain on investments	(1.36)	(3.62)	(.12)	-	-	-
Total Distributions	(1.52)	(3.72)	(.29)	(.21)	(.03)	(.05)
Net asset value, end of period	18.02	18.88	22.97	20.83	15.65	13.14
Total Return (%)	3.75[b]	(2.52)	11.76	34.70	19.34	.20
Ratios/ Supplemental Data (%):						
Ratio of total expenses to average net assets	1.10[c]	1.10	1.10	1.11	1.10	1.11
Ratio of net expenses to average net assets	1.10[c]	1.10	1.10	1.11	1.10	1.11
Ratio of net investment income to average net assets	.52[c]	.72	.40	.86	1.32	.18
Portfolio Turnover Rate	40.25[b]	80.27	83.06	68.72	73.96	81.48
Net Assets, end of period ($ x 1,000)	56,324	49,363	35,213	23,838	17,836	17,050

[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 without a sales charge. The fund is authorized to issue an unlimited number of $.001 par value shares of Beneficial Interest in each of the following classes of shares: Initial and Service. Each class of shares has identical rights and privileges, except with respect to the Distribution Plan, and the expenses borne by each class, the allocation of certain transfer agency costs, and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

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

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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, 2016 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†	170,824,274	-	-	**170,824,274**
Mutual Funds	9,836,483	-	-	**9,836,483**

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

At June 30, 2016, there were no transfers between levels 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. Additionally, the contractual maturity of security lending transactions are on an overnight and continuous basis. During the period ended June 30, 2016, The Bank of New York Mellon earned $6,709 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, 2016 were as follows:

Affiliated Investment Company	Value 12/31/2015 ($)	Purchases ($)	Sales ($)	Value 6/30/2016 ($)	Net Assets (%)
Dreyfus Institutional Cash Advantage Fund, Institutional Shares	2,401,926	74,392,819	67,604,128	9,190,617	5.3
Dreyfus Institutional Preferred Plus Money Market Fund	458,721	15,964,167	15,777,022	645,866	.4
Total	**2,860,647**	**90,356,986**	**83,381,150**	**9,836,483**	**5.7**

(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, 2016, 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, 2016, the fund did not incur any interest or penalties.

Each tax year in the three-year period ended December 31, 2015 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, 2015 was as follows: ordinary income $8,873,053 and long-term capital gains $23,301,258. 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 $555 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. Prior to January 11, 2016, the unsecured credit facility with Citibank, N.A. was $480 million. 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, 2016, the fund did not borrow under the Facilities.

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, 2016, Service shares were charged $63,977 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, 2016, the fund was charged $859 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 $25.

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, 2016, the fund was charged $15,147 pursuant to the custody agreement.

During the period ended June 30, 2016, the fund was charged $4,812 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 $105,617, Distribution Plan fees $11,462, custodian fees $7,203, Chief Compliance Officer fees $4,812 and transfer agency fees $207.

(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, 2016, amounted to $67,300,933 and $73,633,278, respectively.

At June 30, 2016, accumulated net unrealized appreciation on investments was $12,972,726, consisting of $22,674,599 gross unrealized appreciation and $9,701,873 gross unrealized depreciation.

At June 30, 2016, 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

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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
225 Liberty 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 1-800-258-4260 or 1-800-258-4261

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

E-mail Send your request to info@dreyfus.com

Internet Information can be viewed online or downloaded at www.dreyfus.com

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

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

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BNY MELLON | Dreyfus

The Dreyfus Socially Responsible Growth Fund, Inc.

SEMIANNUAL REPORT
June 30, 2016

BNY MELLON | Dreyfus

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

Contents

THE FUND

FOR MORE INFORMATION

A LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this semiannual report for The Dreyfus Socially Responsible Growth Fund, Inc., covering the six-month period from January 1, 2016 through June 30, 2016. 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.

Financial markets experienced heightened turbulence over the first half of 2016 when global economic challenges fueled dramatic swings in market sentiment. At the start of the year, investors reacted cautiously to an economic slowdown in China, sluggish growth in Europe, plummeting commodity prices, and rising short-term interest rates in the United States. These worries sparked sharp declines in U.S. and global equity markets, while high-quality bonds gained value as investors flocked to traditional safe havens.

Investor sentiment subsequently rebounded when U.S. monetary policymakers refrained from additional rate hikes, major central banks eased their monetary policies further, and commodity prices improved. Stocks rallied strongly during the spring, recouping earlier losses, and bonds continued to benefit from robust investor demand. Still, by June, uncertainty continued to dominate the capital markets amid worries about Great Britain's exit from the European Union and disappointing job growth in the United States.

We remain encouraged by the resilience of the stock and bond markets, but we expect volatility to persist until global economic uncertainty abates. In addition, wide differences in underlying fundamental and technical influences across various asset classes, economic sectors, and regional markets suggest that selectivity may be an important determinant of investment success over the second half of 2016. As always, we encourage you to discuss the implications of our observations with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
July 15, 2016

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2016 through June 30, 2016, 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, 2016, The Dreyfus Socially Responsible Growth Fund, Inc.'s Initial shares produced a total return of 1.43%, and the fund's Service shares returned 1.26%.[1] In comparison, the fund's benchmark, the Standard & Poor's 500® Composite Stock Price Index (the "S&P 500 Index"), produced a total return of 3.82% for the same period.[2]

U.S. equities produced moderately positive total returns over the reporting period, masking heightened market volatility. Underweighted exposure to large-cap stocks, particularly those with low environmental, social and corporate governance ("ESG") ratings, dampened the fund's results compared to its benchmark.

The Fund's Investment Approach

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

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

Market Decline Followed by Robust Rally

U.S. stocks began 2016 on a negative note, when investors became increasingly concerned about a persistent economic slowdown in China, sluggish growth in Europe and Japan, plummeting commodity prices, and the potentially adverse economic consequences of additional short-term interest rate hikes in the United States. The S&P 500 Index declined more than 10% in January alone, marking its worst-ever start to a calendar year.

The slide continued into mid-February, when the market's trajectory shifted dramatically. Investor sentiment began to improve and stocks rallied strongly in response to stabilizing oil prices, additional easing measures from the European Central Bank and People's Bank of China, and indications that U.S. monetary policymakers would delay additional rate hikes in response to global economic challenges. Investors' spirits were dampened in late April by mixed corporate earnings reports, but the market rally resumed in May and June. The market quickly recovered from a sharp downturn in late June after the United Kingdom voted to leave the European Union, enabling the S&P 500 Index to post a moderately positive total return for the first half of 2016 overall.

Smaller Stocks Lagged Large-Cap Stocks

The fund's performance compared to its benchmark was constrained by its socially responsible investment policies, which prevented it from owning some of the reporting period's better performers. Due to the low ESG ratings of some large companies, the fund held a bias toward smaller companies that slightly lagged large-cap market averages. In addition, the fund held underweighted exposure to the relatively strong telecommunication services and consumer staples sectors.

Among individual holdings, oil refiners Marathon Petroleum and Valero Energy sold off sharply after some analysts downgraded the stocks due to concerns about gasoline demand. Specialty retailer Signet Jewelers missed revenue and same-store-sales targets. Medical supplies distributor AmerisourceBergen fell when the company reported disappointing earnings and reduced its forecast due to pricing pressures and lower-than-expected results from new product launches. Biotechnology firm Gilead Sciences also struggled with pricing pressures and competitive headwinds. We sold a portion of the fund's position in Gilead Sciences after its ESG rating was downgraded due to high drug prices and corporate governance concerns.

The fund achieved better results in other areas. Semiconductor company NVIDIA reported strength in its high-end gaming, datacenter, and automobile segments. Electric utility NextEra Energy was rewarded for its defensive characteristics and strong financial results. Apparel maker PVH rebounded from previous weakness when it announced better-than-expected revenues and earnings. Finally, the fund benefited from lack of exposure to large-cap banks Bank of America, Wells Fargo, Citigroup, and JP Morgan, which did not meet our ESG criteria and were hurt by low interest rates.

A Constructive Investment Posture

While our quantitative investment process does not focus on macroeconomic developments, we have been encouraged by recent evidence that investors are turning their focus toward underlying business fundamentals. In this environment, we have continued to find ample opportunities among companies with attractive valuations, earnings sustainability, favorable behavioral characteristics, and high ESG ratings. We have identified a number of opportunities meeting our criteria in the utilities and information technology sectors, but relatively few in the consumer discretionary and financials sectors.

July 15, 2016

Equities 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, 2016 to June 30, 2016. 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, 2016

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.26	$ 5.50
Ending value (after expenses)	$ 1,014.30	$ 1,012.60

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

Using the SEC's method to compare expenses

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

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended June 30, 2016

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.27	$ 5.52
Ending value (after expenses)	$ 1,020.64	$ 1,019.39

† *Expenses are equal to the fund's annualized expense ratio of .85% for Initial shares and 1.10% for Service shares, multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS
June 30, 2016 (Unaudited)

Common Stocks - 98.9%	Shares		Value ($)
Banks - 2.9%			
Citizens Financial Group	30,700		613,386
People's United Financial	194,100		2,845,506
PNC Financial Services Group	39,900		3,247,461
			6,706,353
Capital Goods - 7.4%			
3M	33,450		5,857,764
General Electric	227,750		7,169,570
Quanta Services	162,100	a	3,747,752
			16,775,086
Consumer Durables & Apparel - 3.6%			
NIKE, Cl. B	82,300		4,542,960
PVH	38,200		3,599,586
			8,142,546
Diversified Financials - 5.9%			
American Express	20,750		1,260,770
Franklin Resources	39,200		1,308,104
Northern Trust	58,100		3,849,706
State Street	64,700		3,488,624
T. Rowe Price Group	48,650		3,549,991
			13,457,195
Energy - 6.0%			
Exxon Mobil	29,500		2,765,330
Hess	11,550		694,155
Phillips 66	17,150	b	1,360,681
Spectra Energy	93,450		3,423,074
Tesoro	28,700		2,150,204
Valero Energy	64,300		3,279,300
			13,672,744
Food, Beverage & Tobacco - 8.0%			
Campbell Soup	56,800	b	3,778,904
General Mills	50,400		3,594,528
Hormel Foods	7,800		285,480
Kellogg	46,700		3,813,055
Mondelez International, Cl. A	99,600		4,532,796
PepsiCo	21,700		2,298,898
			18,303,661

Common Stocks - 98.9% (continued)	Shares		Value ($)
Health Care Equipment & Services - 5.6%			
AmerisourceBergen	45,500		3,609,060
Cardinal Health	49,200		3,838,092
Cigna	9,400		1,203,106
Henry Schein	23,800	a	4,207,840
			12,858,098
Household & Personal Products - 1.6%			
Clorox	27,050		**3,743,449**
Insurance - 3.8%			
Chubb	40,500		5,293,755
Marsh & McLennan Cos.	49,200		3,368,232
			8,661,987
Materials - 2.2%			
Ecolab	34,650		4,109,490
International Flavors & Fragrances	7,200		907,704
			5,017,194
Media - 3.5%			
Charter Communications, Cl. A	1	a	185
Discovery Communications, Cl. A	22,700	a	572,721
Time Warner	59,900		4,405,046
Walt Disney	30,000		2,934,600
			7,912,552
Pharmaceuticals, Biotechnology & Life Sciences - 11.0%			
Agilent Technologies	101,050		4,482,578
Biogen	8,950	a	2,164,289
Gilead Sciences	59,550		4,967,661
Johnson & Johnson	9,500		1,152,350
Merck & Co.	60,000		3,456,600
PerkinElmer	8,500		445,570
Waters	32,250	a	4,535,963
Zoetis	81,900		3,886,974
			25,091,985
Retailing - 3.7%			
Nordstrom	78,400	b	2,983,120
Signet Jewelers	32,700		2,694,807
Tiffany & Co.	44,400	b	2,692,416
			8,370,343
Semiconductors & Semiconductor Equipment - 2.9%			
Intel	64,600		2,118,880

Common Stocks - 98.9% (continued)	Shares		Value ($)
Semiconductors & Semiconductor Equipment - 2.9% (continued)			
NVIDIA	96,600		4,541,166
			6,660,046
Software & Services - 12.0%			
Accenture, Cl. A	45,350		5,137,702
Alphabet, Cl. A	7,870	a	5,536,781
Alphabet, Cl. C	8,300	a	5,744,430
Citrix Systems	47,400	a	3,796,266
Microsoft	140,450		7,186,826
			27,402,005
Technology Hardware & Equipment - 7.2%			
Apple	39,300		3,757,080
Cisco Systems	200,775		5,760,234
Corning	55,900		1,144,832
EMC	48,625		1,321,141
Hewlett Packard Enterprise	56,700		1,035,909
Motorola Solutions	52,600		3,470,022
			16,489,218
Telecommunication Services - 1.6%			
CenturyLink	128,100		**3,716,181**
Transportation - 3.5%			
Delta Air Lines	70,900		2,582,887
Expeditors International of Washington	18,800		921,952
Southwest Airlines	111,200		4,360,152
			7,864,991
Utilities - 6.5%			
Exelon	138,600		5,039,496
NextEra Energy	42,300		5,515,920
Sempra Energy	36,900		4,207,338
			14,762,754
Total Common Stocks (cost $194,211,534)			**225,608,388**

Other Investment - 1.1%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Preferred Plus Money Market Fund (cost $2,498,937)	2,498,937 [c]	**2,498,937**
Investment of Cash Collateral for Securities Loaned - 1.3%		
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund, Institutional Shares (cost $3,001,280)	3,001,280 [c]	**3,001,280**
Total Investments (cost $199,711,751)	**101.3%**	**231,108,605**
Liabilities, Less Cash and Receivables	**(1.3%)**	**(2,951,922)**
Net Assets	**100.0%**	**228,156,683**

[a] *Non-income producing security.*
[b] *Security, or portion thereof, on loan. At June 30, 2016, the value of the fund's securities on loan was $7,859,359 and the value of the collateral held by the fund was $7,935,404, consisting of cash collateral of $3,001,280 and U.S. Government & Agency securities valued at $4,934,124.*
[c] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited) †	Value (%)
Software & Services	12.0
Pharmaceuticals, Biotechnology & Life Sciences	11.0
Food, Beverage & Tobacco	8.0
Capital Goods	7.4
Technology Hardware & Equipment	7.2
Utilities	6.5
Energy	6.0
Diversified Financials	5.9
Health Care Equipment & Services	5.6
Insurance	3.8
Retailing	3.7
Consumer Durables & Apparel	3.6
Media	3.5
Transportation	3.5
Banks	2.9
Semiconductors & Semiconductor Equipment	2.9
Money Market Investments	2.4
Materials	2.2
Household & Personal Products	1.6
Telecommunication Services	1.6
	101.3

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

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2016 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments		
(including securities on loan, valued at $7,859,359)—Note 1(b):		
Unaffiliated issuers	194,211,534	225,608,388
Affiliated issuers	5,500,217	5,500,217
Cash		18,306
Dividends and securities lending income receivable		334,849
Prepaid expenses		4,714
		231,466,474
Liabilities ($):		
Due to The Dreyfus Corporation—Note 3(c)		153,884
Liability for securities on loan—Note 1(b)		3,001,280
Payable for shares of Common Stock redeemed		89,168
Accrued expenses		65,459
		3,309,791
Net Assets ($)		**228,156,683**
Composition of Net Assets ($):		
Paid-in capital		189,942,422
Accumulated undistributed investment income—net		1,456,839
Accumulated net realized gain (loss) on investments		5,360,568
Accumulated net unrealized appreciation (depreciation) on investments		31,396,854
Net Assets ($)		**228,156,683**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	218,164,405	9,992,278
Shares Outstanding	6,271,449	289,940
Net Asset Value Per Share ($)	**34.79**	**34.46**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2016 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	2,390,980
Affiliated issuers	2,660
Income from securities lending—Note 1(b)	30,596
Total Income	**2,424,236**
Expenses:	
Management fee—Note 3(a)	845,707
Professional fees	48,228
Directors' fees and expenses—Note 3(d)	28,578
Prospectus and shareholders' reports	13,780
Distribution fees—Note 3(b)	12,095
Custodian fees—Note 3(c)	7,998
Loan commitment fees—Note 2	1,730
Shareholder servicing costs—Note 3(c)	899
Miscellaneous	6,864
Total Expenses	**965,879**
Less—reduction in fees due to earnings credits—Note 3(c)	(31)
Net Expenses	**965,848**
Investment Income—Net	**1,458,388**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	5,424,597
Net unrealized appreciation (depreciation) on investments	(4,021,820)
Net Realized and Unrealized Gain (Loss) on Investments	**1,402,777**
Net Increase in Net Assets Resulting from Operations	**2,861,165**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2015
Operations ($):		
Investment income—net	1,458,388	2,961,712
Net realized gain (loss) on investments	5,424,597	22,653,145
Net unrealized appreciation (depreciation) on investments	(4,021,820)	(33,587,174)
Net Increase (Decrease) in Net Assets Resulting from Operations	**2,861,165**	**(7,972,317)**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,857,548)	(2,689,794)
Service Shares	(102,266)	(85,867)
Net realized gain on investments:		
Initial Shares	(21,711,406)	(33,743,127)
Service Shares	(979,667)	(1,384,964)
Total Dividends	**(25,650,887)**	**(37,903,752)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	3,419,797	12,284,196
Service Shares	736,340	1,679,368
Dividends reinvested:		
Initial Shares	24,568,954	36,432,921
Service Shares	1,081,933	1,470,831
Cost of shares redeemed:		
Initial Shares	(15,474,909)	(47,663,749)
Service Shares	(737,829)	(2,090,656)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**13,594,286**	**2,112,911**
Total Increase (Decrease) in Net Assets	**(9,195,436)**	**(43,763,158)**
Net Assets ($):		
Beginning of Period	237,352,119	281,115,277
End of Period	**228,156,683**	**237,352,119**
Undistributed investment income—net	1,456,839	2,958,265
Capital Share Transactions (Shares):		
Initial Shares		
Shares sold	96,108	294,421
Shares issued for dividends reinvested	711,731	885,584
Shares redeemed	(435,504)	(1,165,121)
Net Increase (Decrease) in Shares Outstanding	**372,335**	**14,884**
Service Shares		
Shares sold	21,031	41,251
Shares issued for dividends reinvested	31,617	36,032
Shares redeemed	(21,137)	(52,097)
Net Increase (Decrease) in Shares Outstanding	**31,511**	**25,186**

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, 2016 (Unaudited)	Year Ended December 31, 2015	2014	2013	2012	2011
Per Share Data ($):						
Net asset value, beginning of period	38.56	45.97	44.09	33.24	29.91	29.90
Investment Operations:						
Investment income—net[a]	.23	.47	.45	.46	.44	.24
Net realized and unrealized gain (loss) on investments	.29	(1.54)	5.07	10.87	3.15	.04
Total from Investment Operations	.52	(1.07)	5.52	11.33	3.59	.28
Distributions:						
Dividends from investment income—net	(.50)	(.47)	(.48)	(.48)	(.26)	(.27)
Dividends from net realized gain on investments	(3.79)	(5.87)	(3.16)	–	–	–
Total Distributions	(4.29)	(6.34)	(3.64)	(.48)	(.26)	(.27)
Net asset value, end of period	34.79	38.56	45.97	44.09	33.24	29.91
Total Return (%)	1.43[b]	(3.20)	13.45	34.34	11.98	.90
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	.85[c]	.86	.84	.86	.85	.85
Ratio of net expenses to average net assets	.85[c]	.86	.84	.86	.85	.85
Ratio of net investment income to average net assets	1.30[c]	1.14	1.02	1.19	1.34	.80
Portfolio Turnover Rate	30.26[b]	59.57	45.05	38.81	48.84	67.88
Net Assets, end of period ($ x 1,000)	218,164	227,483	270,483	264,713	207,383	208,013

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

Service Shares	Six Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2015	2014	2013	2012	2011
Per Share Data ($):						
Net asset value, beginning of period	38.19	45.58	43.76	33.01	29.70	29.71
Investment Operations:						
Investment income—net[a]	.18	.36	.33	.36	.36	.17
Net realized and unrealized gain (loss) on investments	.28	(1.52)	5.04	10.78	3.13	.02
Total from Investment Operations	.46	(1.16)	5.37	11.14	3.49	.19
Distributions:						
Dividends from investment income—net	(.40)	(.36)	(.39)	(.39)	(.18)	(.20)
Dividends from net realized gain on investments	(3.79)	(5.87)	(3.16)	–	–	–
Total Distributions	(4.19)	(6.23)	(3.55)	(.39)	(.18)	(.20)
Net asset value, end of period	34.46	38.19	45.58	43.76	33.01	29.70
Total Return (%)	1.26[b]	(3.41)	13.13	33.99	11.70	.65
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	1.10[c]	1.11	1.09	1.11	1.10	1.10
Ratio of net expenses to average net assets	1.10[c]	1.11	1.09	1.11	1.10	1.10
Ratio of net investment income to average net assets	1.06[c]	.89	.76	.93	1.09	.55
Portfolio Turnover Rate	30.26[b]	59.57	45.05	38.81	48.84	67.88
Net Assets, end of period ($ x 1,000)	9,992	9,869	10,632	8,767	6,552	6,167

[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 without a sales charge. The fund is authorized to issue 150 million shares of $.001 par value Common Stock in each of the following classes of shares: Initial and Service. Initial shares are subject to a Shareholder Services Plan fee and Service shares are subject to a Distribution Plan fee. Each class of shares has identical rights and privileges, except with respect to the Distribution Plan, Shareholder Services Plan and the expenses borne by each class, the allocation of certain transfer agency costs, and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 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 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, 2016 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†	222,913,581	-	-	**222,913,581**
Equity Securities - Foreign Common Stocks†	2,,694,807	-	-	**2,694,807**
Mutual Funds	5,500,217	-	-	**5,500,217**

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

At June 30, 2016, there were no transfers between levels 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. Additionally, the contractual maturity of security lending transactions are on an overnight and continuous basis. During the period ended June 30, 2016, The Bank of New York Mellon earned $7,890 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, 2016 were as follows:

Affiliated Investment Company	Value 12/31/2015 ($)	Purchases ($)	Sales ($)	Value 6/30/2016 ($)	Net Assets (%)
Dreyfus Institutional Cash Advantage Fund, Institutional Shares	2,079,721	20,611,963	19,690,404	3,001,280	1.3
Dreyfus Institutional Preferred Plus Money Market Fund	2,404,446	13,285,147	13,190,656	2,498,937	1.1
Total	**4,484,167**	**33,897,110**	**32,881,060**	**5,500,217**	**2.4**

(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, 2016, 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, 2016, the fund did not incur any interest or penalties.

Each tax year in the three-year period ended December 31, 2015 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, 2015 was as follows: ordinary income $4,666,391 and long-term capital gains $33,237,361. 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 $555 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. Prior to January 11, 2016, the unsecured credit facility with Citibank, N.A. was $480 million. 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, 2016, 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, 2016, Service shares were charged $12,095 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. During the period ended June 30, 2016, Initial shares were not charged pursuant to the Shareholders Services 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, 2016, the fund was charged $727 for transfer agency services and $66 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 $31.

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, 2016, the fund was charged $7,998 pursuant to the custody agreement.

During the period ended June 30, 2016, the fund was charged $4,812 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 $140,301, Distribution Plan fees $2,045, custodian fees $6,400, Chief Compliance Officer fees $4,812 and transfer agency fees $326.

(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, 2016, amounted to $68,670,555 and $79,339,062, respectively.

At June 30, 2016, accumulated net unrealized appreciation on investments was $31,396,854, consisting of $38,650,690 gross unrealized appreciation and $7,253,836 gross unrealized depreciation.

At June 30, 2016, 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).

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
225 Liberty 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 1-800-258-4260 or 1-800-258-4261

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

E-mail Send your request to info@dreyfus.com

Internet Information can be viewed online or downloaded at www.dreyfus.com

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 www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. (phone 1-800-SEC-0330 for information).

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 www.dreyfus.com and on the SEC's website at www.sec.gov and without charge, upon request, by calling 1-800-DREYFUS.

Printed on recycled paper.
50% post-consumer.
Process chlorine free.
Vegetable-based ink.

0111SA0616

BNY MELLON | Dreyfus

Semiannual Report to Shareholders June 30, 2016

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, 12/31/15 to 6/30/16, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	-0.70%
Series II Shares	-0.80
Russell 1000 Value Index▼ (Broad Market Index)	6.30
Barclays U.S. Government/Credit Index▼ (Style-Specific Index)	6.23
Lipper VUF Mixed-Asset Target Allocation Growth Funds Index■ (Peer Group Index)	2.31

Source(s): ▼FactSet Research Systems Inc.; ■Lipper Inc.

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 Funds Index** is an unmanaged index considered representative of mixed-asset target allocation growth 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 6/30/16

Series I Shares	
Inception (12/30/94)	6.99%
10 Years	6.16
5 Years	7.19
1 Year	-3.75
Series II Shares	
Inception (4/30/04)	8.64%
10 Years	5.90
5 Years	6.93
1 Year	-3.97

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, 2018. See current prospectus for more information.

Schedule of Investments[a]

June 30, 2016
(Unaudited)

	Shares	Value
Common Stocks & Other Equity Interests–64.46%		
Aerospace & Defense–0.86%		
General Dynamics Corp.	2,999	$ 417,581
Agricultural Products–0.51%		
Archer-Daniels-Midland Co.	5,767	247,347
Application Software–0.65%		
Citrix Systems, Inc.[b]	3,938	315,394
Asset Management & Custody Banks–1.48%		
Northern Trust Corp.	5,002	331,433
State Street Corp.	7,221	389,356
		720,789
Automobile Manufacturers–0.50%		
General Motors Co.	8,553	242,050
Biotechnology–0.69%		
Amgen Inc.	2,202	335,034
Broadcasting–0.19%		
CBS Corp.–Class B	1,730	94,181
Cable & Satellite–1.59%		
Charter Communications, Inc.–Class A[b]	1,150	262,936
Comcast Corp.–Class A	7,807	508,938
		771,874
Communications Equipment–1.92%		
Cisco Systems, Inc.	19,058	546,774
Juniper Networks, Inc.	17,242	387,773
		934,547
Construction Machinery & Heavy Trucks–0.69%		
Caterpillar Inc.	4,457	337,885
Data Processing & Outsourced Services–0.68%		
PayPal Holdings, Inc.[b]	9,004	328,736
Diversified Banks–8.17%		
Bank of America Corp.[c]	64,742	859,126
Citigroup Inc.	31,738	1,345,374
Comerica Inc.	7,170	294,902
JPMorgan Chase & Co.	23,761	1,476,509
		3,975,911
Drug Retail–1.10%		
Walgreens Boots Alliance, Inc.	6,409	533,677
Electric Utilities–1.09%		
FirstEnergy Corp.	6,401	223,459
PG&E Corp.	4,782	305,665
		529,124

	Shares	Value
Fertilizers & Agricultural Chemicals–0.78%		
Agrium Inc. (Canada)	702	$ 63,475
Mosaic Co. (The)	12,056	315,626
		379,101
Food Distributors–0.49%		
Sysco Corp.	4,688	237,869
General Merchandise Stores–0.91%		
Target Corp.	6,330	441,961
Health Care Equipment–1.87%		
Baxter International Inc.	8,457	382,426
Medtronic PLC	6,085	527,995
		910,421
Health Care Services–0.52%		
Express Scripts Holding Co.[b]	3,342	253,324
Home Improvement Retail–0.39%		
Kingfisher PLC (United Kingdom)	43,572	188,093
Hotels, Resorts & Cruise Lines–1.24%		
Carnival Corp.	13,702	605,628
Industrial Conglomerates–1.65%		
General Electric Co.[c]	25,505	802,897
Industrial Machinery–0.67%		
Ingersoll-Rand PLC	5,133	326,870
Insurance Brokers–2.12%		
Aon PLC	3,696	403,714
Marsh & McLennan Cos., Inc.	4,579	313,478
Willis Towers Watson PLC	2,519	313,137
		1,030,329
Integrated Oil & Gas–3.65%		
Exxon Mobil Corp.	3,667	343,745
Occidental Petroleum Corp.	4,684	353,923
Royal Dutch Shell PLC–Class A (United Kingdom)	25,328	691,593
TOTAL S.A. (France)	8,030	386,502
		1,775,763
Integrated Telecommunication Services–0.99%		
Koninklijke KPN N.V. (Netherlands)	24,310	88,160
Orange S.A. (France)	5,452	89,037
Verizon Communications Inc.	5,467	305,277
		482,474
Internet Software & Services–0.64%		
eBay Inc.[b]	13,374	313,085
Investment Banking & Brokerage–2.62%		
Charles Schwab Corp. (The)	10,940	276,891

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Shares	Value
Investment Banking & Brokerage-(continued)		
Goldman Sachs Group, Inc. (The)	2,106	$ 312,910
Morgan Stanley	26,406	686,028
		1,275,829
Managed Health Care-1.09%		
Anthem, Inc.	1,906	250,334
UnitedHealth Group Inc.	1,981	279,717
		530,051
Movies & Entertainment-0.54%		
Time Warner Inc.	3,570	262,538
Oil & Gas Equipment & Services-1.23%		
Baker Hughes Inc.	8,988	405,628
Weatherford International PLC[(b)]	34,872	193,540
		599,168
Oil & Gas Exploration & Production-3.73%		
Apache Corp.	13,126	730,724
Canadian Natural Resources Ltd. (Canada)	16,254	501,441
Devon Energy Corp.	16,059	582,139
		1,814,304
Other Diversified Financial Services-0.46%		
Voya Financial, Inc.	9,103	225,390
Packaged Foods & Meats-0.90%		
Mondelez International, Inc.-Class A	9,646	438,990
Pharmaceuticals-4.74%		
Eli Lilly and Co.	4,533	356,974
Merck & Co., Inc.[(c)]	11,707	674,440
Novartis AG (Switzerland)	4,245	349,264
Pfizer Inc.	16,885	594,521
Sanofi (France)	3,955	332,389
		2,307,588
Publishing-0.47%		
Thomson Reuters Corp.	5,614	227,115
Railroads-0.69%		
CSX Corp.	12,966	338,153
Regional Banks-4.08%		
BB&T Corp.	7,578	269,853
Citizens Financial Group Inc.	25,830	516,083
Fifth Third Bancorp	22,405	394,104
First Horizon National Corp.	19,166	264,107
PNC Financial Services Group, Inc. (The)	6,643	540,674
		1,984,821
Security & Alarm Services-0.82%		
Tyco International PLC	9,338	397,799
Semiconductor Equipment-0.91%		
Applied Materials, Inc.	18,541	444,428

	Shares	Value
Semiconductors-1.88%		
Intel Corp.	12,970	$ 425,416
QUALCOMM, Inc.	9,102	487,594
		913,010
Specialized Finance-0.47%		
CME Group Inc.-Class A	2,339	227,819
Systems Software-2.30%		
Microsoft Corp.	8,603	440,215
Oracle Corp.	16,560	677,801
		1,118,016
Tobacco-0.87%		
Philip Morris International Inc.	4,185	425,698
Wireless Telecommunication Services-0.62%		
Vodafone Group PLC-ADR (United Kingdom)	9,775	301,950
Total Common Stocks & Other Equity Interests (Cost $30,866,976)		31,364,612

	Principal Amount	
Bonds and Notes-25.49%		
Aerospace & Defense-0.22%		
Boeing Capital Corp., Sr. Unsec. Notes, 2.13%, 08/15/2016	$ 35,000	35,031
Lockheed Martin Corp., Sr. Unsec. Global Notes, 2.13%, 09/15/2016	35,000	35,095
Northrop Grumman Corp., Sr. Unsec. Global Notes, 3.85%, 04/15/2045	10,000	10,450
Precision Castparts Corp., Sr. Unsec. Global Notes, 1.25%, 01/15/2018	25,000	25,123
		105,699
Airlines-0.17%		
American Airlines Pass Through Trust, Series 2014-1, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.70%, 04/01/2028	22,835	23,791
Continental Airlines Pass Through Trust, Series 2009-1, Sr. Sec. First Lien Pass Through Ctfs., 9.00%, 07/08/2016	16,273	16,273
United Airlines Pass Through Trust, Series 2014-2, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.75%, 09/03/2026	29,127	30,784
Virgin Australia Pass Through Trust (Australia), Series 2013-1, Class A, Sec. Gtd. Pass Through Ctfs., 5.00%, 10/23/2023[(d)]	13,409	13,849
		84,697
Apparel Retail-0.04%		
Ross Stores, Inc., Sr. Unsec. Notes, 3.38%, 09/15/2024	19,000	19,937
Application Software-0.66%		
Citrix Systems, Inc., Sr. Unsec. Conv. Bonds, 0.50%, 04/15/2019	248,000	277,140

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Application Software-(continued)		
Nuance Communications, Inc., Sr. Unsec. Conv. Notes, 1.00%, 12/15/2022[d][e]	$ 51,000	$ 45,071
		322,211
Asset Management & Custody Banks-0.60%		
Apollo Management Holdings L.P., Sr. Unsec. Gtd. Notes, 4.00%, 05/30/2024[d]	40,000	41,235
4.40%, 05/27/2026[d]	2,000	2,092
Blackstone Holdings Finance Co. LLC, Sr. Unsec. Gtd. Notes, 5.00%, 06/15/2044[d]	150,000	163,429
KKR Group Finance Co. III LLC, Sr. Unsec. Gtd. Bonds, 5.13%, 06/01/2044[d]	85,000	86,230
		292,986
Automobile Manufacturers-0.59%		
BMW US Capital, LLC (Germany), Sr. Unsec. Gtd. Notes, 2.00%, 04/11/2021[d]	29,000	29,249
Ford Motor Credit Co. LLC, Sr. Unsec. Global Notes, 4.13%, 08/04/2025	200,000	215,350
General Motors Co., Sr. Unsec. Global Notes, 6.60%, 04/01/2036	16,000	18,560
General Motors Financial Co., Inc., Sr. Unsec. Gtd. Global Notes, 5.25%, 03/01/2026	21,000	22,759
		285,918
Automotive Retail-0.03%		
AutoZone, Inc., Sr. Unsec. Global Notes, 3.13%, 04/21/2026	14,000	14,387
Biotechnology-0.88%		
AbbVie Inc., Sr. Unsec. Global Notes, 1.75%, 11/06/2017	90,000	90,606
4.50%, 05/14/2035	38,000	39,808
BioMarin Pharmaceutical Inc., Sr. Unsec. Sub. Conv. Notes, 1.50%, 10/15/2020	107,000	124,254
Celgene Corp., Sr. Unsec. Global Notes, 4.63%, 05/15/2044	100,000	103,362
5.00%, 08/15/2045	9,000	9,970
Gilead Sciences, Inc., Sr. Unsec. Global Notes, 3.05%, 12/01/2016	30,000	30,257
4.40%, 12/01/2021	25,000	28,253
		426,510
Brewers-0.40%		
Anheuser-Busch InBev Finance, Inc. (Belgium), Sr. Unsec. Gtd. Global Notes, 2.65%, 02/01/2021	30,000	31,117
3.30%, 02/01/2023	25,000	26,313
4.70%, 02/01/2036	45,000	50,577
4.90%, 02/01/2046	47,000	55,353
Molson Coors Brewing Co., Sr. Unsec. Gtd. Global Notes, 1.45%, 07/15/2019	13,000	13,039
4.20%, 07/15/2046	16,000	16,181
		192,580

	Principal Amount	Value
Broadcasting-0.61%		
Liberty Media Corp., Sr. Unsec. Conv. Notes, 1.38%, 10/15/2023	$ 299,000	$ 298,439
Cable & Satellite-0.84%		
Charter Communications Operating, LLC/ Charter Communications Operating Capital Corp., Sr. Sec. First Lien Notes, 4.46%, 07/23/2022[d]	60,000	64,592
Comcast Corp., Sr. Unsec. Gtd. Global Notes, 5.70%, 05/15/2018	150,000	162,951
Cox Communications, Inc., Sr. Unsec. Notes, 8.38%, 03/01/2039[d]	150,000	180,496
		408,039
Catalog Retail-0.27%		
Liberty Interactive LLC, Sr. Unsec. Conv. Global Deb., 0.75%, 03/30/2023[e]	75,000	84,015
QVC, Inc., Sr. Sec. Gtd. First Lien Global Notes, 5.45%, 08/15/2034	50,000	46,166
		130,181
Communications Equipment-0.50%		
Ciena Corp., Sr. Unsec. Conv. Notes, 4.00%, 12/15/2020[d]	75,000	94,031
Viavi Solutions Inc., Sr. Unsec. Conv. Deb., 0.63%, 08/15/2018[e]	153,000	149,845
		243,876
Construction & Engineering-0.04%		
Valmont Industries, Inc., Sr. Unsec. Gtd. Global Notes, 5.25%, 10/01/2054	22,000	19,905
Construction Machinery & Heavy Trucks-0.14%		
Caterpillar Financial Services Corp., Sr. Unsec. Notes, 1.75%, 03/24/2017	70,000	70,412
Consumer Finance-0.04%		
American Express Co., Unsec. Sub. Global Notes, 3.63%, 12/05/2024	18,000	18,527
Data Processing & Outsourced Services-0.07%		
Visa Inc., Sr. Unsec. Global Notes, 4.15%, 12/14/2035	30,000	34,065
Diversified Banks-1.72%		
Bank of America Corp., Sr. Unsec. Medium-Term Global Notes, 3.50%, 04/19/2026	25,000	25,902
BNP Paribas S.A. (France), Unsec. Gtd. Sub. Medium-Term Notes, 4.25%, 10/15/2024	200,000	204,333
Citigroup Inc., Unsec. Sub. Notes, 4.00%, 08/05/2024	60,000	62,202
4.75%, 05/18/2046	15,000	15,029
JPMorgan Chase & Co., Sr. Unsec. Global Notes, 3.20%, 06/15/2026	15,000	15,373
Unsec. Sub. Global Notes, 4.25%, 10/01/2027	15,000	15,823
Series V, Jr. Unsec. Sub. Global Notes, 5.00%[f]	150,000	144,188
Series Z, Jr. Unsec. Sub. Global Notes, 5.30%[f]	40,000	40,100

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Diversified Banks-(continued)		
U.S. Bancorp, Unsec. Sub. Medium-Term Notes, 3.10%, 04/27/2026	$ 10,000	$ 10,430
Wells Fargo & Co., Sr. Unsec. Medium-Term Notes, 3.55%, 09/29/2025	30,000	32,045
Sr. Unsec. Notes, 3.90%, 05/01/2045	60,000	63,125
Unsec. Sub. Medium-Term Notes, 4.10%, 06/03/2026	95,000	101,918
4.65%, 11/04/2044	100,000	105,994
		836,462
Diversified Chemicals-0.09%		
Eastman Chemical Co., Sr. Unsec. Global Notes, 2.70%, 01/15/2020	43,000	44,245
Diversified Real Estate Activities-0.05%		
Brookfield Asset Management Inc. (Canada), Sr. Unsec. Notes, 4.00%, 01/15/2025	25,000	25,471
Drug Retail-0.19%		
CVS Health Corp., Sr. Unsec. Global Bonds, 3.38%, 08/12/2024	20,000	21,336
Walgreens Boots Alliance Inc., Sr. Unsec. Global Notes, 3.30%, 11/18/2021	32,000	33,594
3.10%, 06/01/2023	11,000	11,199
4.50%, 11/18/2034	24,000	25,217
		91,346
Electric Utilities-0.13%		
Commonwealth Edison Co., Series 104, Sr. Sec. First Mortgage Bonds, 5.95%, 08/15/2016	65,000	65,364
Environmental & Facilities Services-0.05%		
Waste Management, Inc., Sr. Unsec. Gtd. Global Notes, 3.90%, 03/01/2035	25,000	26,453
Fertilizers & Agricultural Chemicals-0.03%		
Monsanto Co., Sr. Unsec. Global Notes, 2.13%, 07/15/2019	15,000	15,219
Food Retail-0.18%		
Kraft Heinz Foods Co. (The), Sr. Unsec. Gtd. Global Notes, 2.25%, 06/05/2017	30,000	30,289
Sr. Unsec. Gtd. Notes, 1.60%, 06/30/2017[(d)]	56,000	56,219
		86,508
General Merchandise Stores-0.25%		
Dollar General Corp., Sr. Unsec. Global Notes, 3.25%, 04/15/2023	20,000	20,614
Target Corp., Sr. Unsec. Notes, 5.88%, 07/15/2016	100,000	100,123
		120,737

	Principal Amount	Value
Health Care Equipment-1.45%		
Becton, Dickinson and Co., Sr. Unsec. Global Notes, 1.75%, 11/08/2016	$ 15,000	$ 15,037
3.88%, 05/15/2024	165,000	179,618
4.88%, 05/15/2044	170,000	196,926
Sr. Unsec. Notes, 2.68%, 12/15/2019	17,000	17,489
Medtronic, Inc., Sr. Unsec. Gtd. Global Notes, 3.15%, 03/15/2022	58,000	61,901
4.38%, 03/15/2035	20,000	22,669
NuVasive, Inc., Sr. Unsec. Conv. Notes, 2.25%, 03/15/2021[(d)]	75,000	89,156
Wright Medical Group N.V., Sr. Unsec. Conv. Notes, 2.25%, 11/15/2021[(d)]	36,000	37,215
Wright Medical Group, Inc., Sr. Unsec. Conv. Bonds, 2.00%, 02/15/2020	93,000	85,444
		705,455
Health Care Facilities-0.85%		
Brookdale Senior Living Inc., Sr. Unsec. Conv. Notes, 2.75%, 06/15/2018	161,000	157,881
HealthSouth Corp., Sr. Unsec. Sub. Conv. Notes, 2.00%, 12/01/2020[(e)]	217,000	254,297
		412,178
Health Care REIT's-0.05%		
HCP, Inc., Sr. Unsec. Global Notes, 3.88%, 08/15/2024	25,000	25,497
Health Care Services-0.18%		
Express Scripts Holding Co., Sr. Unsec. Gtd. Global Notes, 2.25%, 06/15/2019	30,000	30,498
Laboratory Corp. of America Holdings, Sr. Unsec. Notes, 3.20%, 02/01/2022	33,000	34,181
4.70%, 02/01/2045	22,000	23,690
		88,369
Home Improvement Retail-0.06%		
Home Depot, Inc. (The), Sr. Unsec. Global Notes, 2.00%, 04/01/2021	27,000	27,730
Housewares & Specialties-0.02%		
Newell Brands Inc., Sr. Unsec. Global Notes, 5.50%, 04/01/2046	9,000	10,694
Hypermarkets & Super Centers-0.22%		
Wal-Mart Stores, Inc., Sr. Unsec. Notes, 5.52%, 06/01/2017[(g)]	100,000	104,562
Integrated Oil & Gas-0.31%		
Chevron Corp., Sr. Unsec. Global Notes, 1.37%, 03/02/2018	77,000	77,802
Occidental Petroleum Corp., Sr. Unsec. Global Notes, 3.40%, 04/15/2026	15,000	15,857
Shell International Finance B.V. (Netherlands), Sr. Unsec. Gtd. Global Notes, 4.00%, 05/10/2046	37,000	37,986

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Integrated Oil & Gas-(continued)		
Suncor Energy Inc. (Canada), Sr. Unsec. Notes, 3.60%, 12/01/2024	$ 18,000	$ 18,824
		150,469
Integrated Telecommunication Services-1.22%		
AT&T Inc., Sr. Unsec. Global Notes, 3.00%, 06/30/2022	28,000	28,761
3.40%, 05/15/2025	15,000	15,346
4.50%, 05/15/2035	25,000	25,628
5.15%, 03/15/2042	150,000	162,497
4.80%, 06/15/2044	40,000	41,354
Telefonica Emisiones S.A.U. (Spain), Sr. Unsec. Gtd. Global Notes, 7.05%, 06/20/2036	150,000	193,474
Verizon Communications Inc., Sr. Unsec. Global Notes, 4.40%, 11/01/2034	120,000	124,540
		591,600
Internet Retail-0.02%		
Amazon.com, Inc., Sr. Unsec. Global Notes, 4.80%, 12/05/2034	9,000	10,607
Investment Banking & Brokerage-0.94%		
Goldman Sachs Group, Inc. (The), Unsec. Sub. Notes, 4.25%, 10/21/2025	27,000	27,921
Jefferies Group LLC, Sr. Unsec. Conv. Deb., 3.88%, 11/01/2017[e]	150,000	152,438
Lazard Group LLC, Sr. Unsec. Global Notes, 3.75%, 02/13/2025	62,000	61,841
Morgan Stanley, Sr. Unsec. Medium-Term Global Notes, 2.38%, 07/23/2019	175,000	178,159
4.00%, 07/23/2025	35,000	37,554
		457,913
Life & Health Insurance-0.16%		
Nationwide Financial Services Inc., Sr. Unsec. Notes, 5.30%, 11/18/2044[d]	50,000	54,774
Reliance Standard Life Global Funding II, Sr. Sec. Notes, 3.05%, 01/20/2021[d]	20,000	20,690
		75,464
Managed Health Care-0.03%		
Aetna, Inc., Sr. Unsec. Global Notes, 4.38%, 06/15/2046	14,000	14,616
Movies & Entertainment-0.12%		
Live Nation Entertainment, Inc., Sr. Unsec. Conv. Bonds, 2.50%, 05/15/2019	57,000	57,427
Multi-Line Insurance-0.63%		
American Financial Group, Inc., Sr. Unsec. Notes, 9.88%, 06/15/2019	150,000	181,281
American International Group, Inc., Sr. Unsec. Global Notes, 2.30%, 07/16/2019	20,000	20,374
4.38%, 01/15/2055	40,000	37,410
Farmers Exchange Capital III, Unsec. Sub. Notes, 5.45%, 10/15/2054[d]	70,000	67,841
		306,906

	Principal Amount	Value
Multi-Utilities-0.39%		
Enable Midstream Partners, LP, Sr. Unsec. Gtd. Global Notes, 2.40%, 05/15/2019	$ 200,000	$ 187,750
Office REIT's-0.31%		
Highwoods Realty L.P., Sr. Unsec. Notes, 3.20%, 06/15/2021	150,000	151,659
Oil & Gas Equipment & Services-0.39%		
Helix Energy Solutions Group, Inc., Sr. Unsec. Conv. Notes, 3.25%, 03/15/2018[e]	84,000	74,865
Weatherford International Ltd., Sr. Unsec. Gtd. Conv. Notes, 5.88%, 07/01/2021	106,000	115,474
		190,339
Oil & Gas Exploration & Production-0.41%		
Anadarko Petroleum Corp., Sr. Unsec. Notes, 4.85%, 03/15/2021	11,000	11,687
6.60%, 03/15/2046	18,000	21,797
Cobalt International Energy Inc., Sr. Unsec. Conv. Notes, 2.63%, 12/01/2019	120,000	45,600
ConocoPhillips Co., Sr. Unsec. Gtd. Global Notes, 2.88%, 11/15/2021	46,000	47,130
4.15%, 11/15/2034	49,000	49,226
Devon Energy Corp., Sr. Unsec. Global Notes, 2.25%, 12/15/2018	25,000	24,906
		200,346
Oil & Gas Storage & Transportation-0.12%		
Energy Transfer Partners, L.P., Sr. Unsec. Notes, 4.90%, 03/15/2035	19,000	17,192
Enterprise Products Operating LLC, Sr. Unsec. Gtd. Notes, 2.55%, 10/15/2019	20,000	20,643
Kinder Morgan Inc., Sr. Unsec. Gtd. Notes, 5.30%, 12/01/2034	23,000	22,660
		60,495
Other Diversified Financial Services-0.17%		
Athene Global Funding, Sec. Notes, 2.88%, 10/23/2018[d]	31,000	30,761
ERAC USA Finance LLC, Sr. Unsec. Gtd. Notes, 2.35%, 10/15/2019[d]	50,000	50,984
		81,745
Packaged Foods & Meats-0.13%		
General Mills, Inc., Sr. Unsec. Global Notes, 2.20%, 10/21/2019	45,000	46,141
Mead Johnson Nutrition Co., Sr. Unsec. Global Notes, 4.13%, 11/15/2025	3,000	3,279
Tyson Foods, Inc., Sr. Unsec. Gtd. Global Bonds, 4.88%, 08/15/2034	11,000	12,225
		61,645
Pharmaceuticals-1.33%		
Actavis Funding SCS, Sr. Unsec. Gtd. Global Notes, 1.85%, 03/01/2017	49,000	49,207
4.85%, 06/15/2044	150,000	158,864
Bayer US Finance LLC (Germany), Sr. Unsec. Gtd. Notes, 3.00%, 10/08/2021[d]	200,000	208,998

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Pharmaceuticals–(continued)		
GlaxoSmithKline Capital PLC (United Kingdom), Sr. Unsec. Gtd. Global Notes, 1.50%, 05/08/2017	$ 85,000	$ 85,465
Jazz Investments I Ltd., Sr. Unsec. Gtd. Conv. Bonds, 1.88%, 08/15/2021	76,000	81,747
Medicines Co. (The), Sr. Unsec. Conv. Notes, 2.75%, 07/15/2023[(d)]	21,000	20,239
Mylan N.V., Sr. Unsec. Gtd. Notes, 3.15%, 06/15/2021[(d)]	17,000	17,188
5.25%, 06/15/2046[(d)]	25,000	26,068
		647,776
Property & Casualty Insurance–0.38%		
Liberty Mutual Group Inc., Sr. Unsec. Gtd. Bonds, 4.85%, 08/01/2044[(d)]	115,000	117,626
Old Republic International Corp., Sr. Unsec. Conv. Notes, 3.75%, 03/15/2018	52,000	66,690
		184,316
Railroads–0.06%		
Union Pacific Corp., Sr. Unsec. Notes, 4.15%, 01/15/2045	25,000	27,593
Renewable Electricity–0.33%		
Oglethorpe Power Corp., Sr. Sec. First Mortgage Bonds, 4.55%, 06/01/2044	150,000	162,790
Research & Consulting Services–0.02%		
Verisk Analytics, Inc., Sr. Unsec. Global Notes, 5.50%, 06/15/2045	10,000	10,318
Retail REIT's–0.31%		
Realty Income Corp., Sr. Unsec. Notes, 2.00%, 01/31/2018	150,000	151,363
Semiconductor Equipment–0.55%		
Lam Research Corp., Series B, Sr. Unsec. Conv. Notes, 1.25%, 05/15/2018	183,000	266,951
Semiconductors–1.67%		
Intel Corp., Sr. Unsec. Global Notes, 1.35%, 12/15/2017	30,000	30,189
Microchip Technology Inc., Sr. Unsec. Sub. Conv. Bonds, 1.63%, 02/15/2025	87,000	96,733
Micron Technology Inc., Series G, Sr. Unsec. Conv. Global Bonds, 3.00%, 11/15/2028[(e)]	224,000	172,200
NVIDIA Corp., Sr. Unsec. Conv. Bonds, 1.00%, 12/01/2018[(d)]	158,000	368,930
ON Semiconductor Corp., Sr. Unsec. Gtd. Conv. Bonds, 1.00%, 12/01/2020	161,000	144,699
		812,751
Soft Drinks–0.06%		
Coca-Cola Co. (The), Sr. Unsec. Global Notes, 1.80%, 09/01/2016	30,000	30,054
Specialized Finance–0.74%		
Air Lease Corp., Sr. Unsec. Global Notes, 2.63%, 09/04/2018	45,000	45,056
4.25%, 09/15/2024	35,000	35,809

	Principal Amount	Value
Specialized Finance–(continued)		
Aviation Capital Group Corp., Sr. Unsec. Notes, 2.88%, 09/17/2018[(d)]	$ 35,000	$ 35,052
4.88%, 10/01/2025[(d)]	40,000	39,456
Moody's Corp., Sr. Unsec. Global Notes, 4.88%, 02/15/2024	150,000	170,972
National Rural Utilities Cooperative Finance Corp. (The), Sr. Unsec. Medium-Term Notes, 0.95%, 04/24/2017	35,000	35,013
		361,358
Specialized REIT's–0.50%		
Crown Castle Towers LLC, Sr. Sec. Gtd. First Lien Notes, 4.88%, 08/15/2020[(d)]	178,000	194,911
Sovran Acquisition LP, Sr. Unsec. Gtd. Global Notes, 3.50%, 07/01/2026	50,000	50,589
		245,500
Systems Software–0.73%		
FireEye, Inc., Series A, Sr. Unsec. Conv. Bonds, 1.00%, 06/01/2020[(e)]	48,000	43,770
Series B, Sr. Unsec. Conv. Bonds, 1.63%, 06/01/2022[(e)]	48,000	42,570
Microsoft Corp., Sr. Unsec. Global Notes, 3.50%, 02/12/2035	37,000	38,106
NetSuite Inc., Sr. Unsec. Conv. Notes, 0.25%, 06/01/2018	149,000	146,672
Oracle Corp., Sr. Unsec. Global Notes, 1.90%, 09/15/2021	50,000	50,202
4.30%, 07/08/2034	30,000	31,948
		353,268
Technology Distributors–0.06%		
Avnet, Inc., Sr. Unsec. Global Notes, 4.63%, 04/15/2026	30,000	31,231
Technology Hardware, Storage & Peripherals–0.94%		
Apple Inc., Sr. Unsec. Global Notes, 2.15%, 02/09/2022	39,000	39,791
Diamond 1 Finance Corp./Diamond 2 Finance Corp., Sr. Sec. First Lien Notes, 5.45%, 06/15/2023[(d)]	26,000	26,908
8.35%, 07/15/2046[(d)]	9,000	9,703
Hewlett Packard Enterprise Co., Sr. Unsec. Notes, 2.85%, 10/05/2018[(d)]	65,000	66,512
SanDisk Corp., Sr. Unsec. Gtd. Conv. Bonds, 0.50%, 10/15/2020	219,000	236,798
Seagate HDD Cayman, Sr. Unsec. Gtd. Global Bonds, 4.75%, 01/01/2025	65,000	51,553
5.75%, 12/01/2034	37,000	26,177
		457,442
Thrifts & Mortgage Finance–0.65%		
MGIC Investment Corp., Sr. Unsec. Conv. Notes, 5.00%, 05/01/2017	157,000	162,887
2.00%, 04/01/2020	42,000	46,830
Radian Group Inc., Sr. Unsec. Conv. Notes, 3.00%, 11/15/2017	67,000	73,449
2.25%, 03/01/2019	28,000	32,113
		315,279

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Tobacco-0.14%		
Philip Morris International Inc., Sr. Unsec. Global Bonds, 1.25%, 08/11/2017	$ 11,000	$ 11,048
Sr. Unsec. Global Notes, 1.63%, 03/20/2017	55,000	55,331
		66,379
Wireless Telecommunication Services-0.05%		
Vodafone Group PLC (United Kingdom), Sr. Unsec. Global Notes, 1.63%, 03/20/2017	25,000	25,080
Total Bonds and Notes (Cost $12,216,814)		12,403,089
U.S. Treasury Securities-6.92%		
U.S. Treasury Notes-6.87%		
0.50%, 04/30/2017	500,000	500,048
0.63%, 06/30/2018	2,335,000	2,336,506
0.88%, 06/15/2019	235,000	236,175
1.13%, 06/30/2021	67,900	68,267
1.38%, 06/30/2023	21,000	21,117
1.63%, 05/15/2026	178,700	180,997
		3,343,110
U.S. Treasury Bonds-0.05%		
2.50%, 02/15/2046	$ 21,400	$ 22,304
Total U.S. Treasury Securities (Cost $3,358,717)		3,365,414
	Shares	
Preferred Stocks-0.19%		
Asset Management & Custody Banks-0.19%		
AMG Capital Trust II, $2.58 Jr. Unsec. Gtd. Sub. Conv. Pfd. (Cost $106,269)	1,700	93,288
Money Market Funds-3.10%		
Liquid Assets Portfolio-Institutional Class, 0.44%[(h)]	755,145	755,145
Premier Portfolio-Institutional Class, 0.40%[(h)]	755,145	755,145
Total Money Market Funds (Cost $1,510,290)		1,510,290
TOTAL INVESTMENTS-100.16% (Cost $48,059,066)		48,736,693
OTHER ASSETS LESS LIABILITIES-(0.16)%		(78,549)
NET ASSETS-100.00%		$48,658,144

Investment Abbreviations:

ADR	– American Depositary Receipt	Gtd.	– Guaranteed	Sec.	– Secured
Conv.	– Convertible	Jr.	– Junior	Sr.	– Senior
Ctfs.	– Certificates	Pfd.	– Preferred	Sub.	– Subordinated
Deb.	– Debentures	REIT	– Real Estate Investment Trust	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) All or a portion of the value was pledged as collateral to cover margin requirements for open futures contracts. See Note 1K and Note 4.
(d) 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, 2016 was $2,259,505, which represented 4.64% of the Fund's Net Assets.
(e) Security has an irrevocable call by the issuer or mandatory put by the holder. Maturity date reflects such call or put.
(f) Perpetual bond with no specified maturity date.
(g) Step coupon bond. The interest rate represents the coupon rate at which the bond will accrue at a specified future date.
(h) The money market fund and the Fund are affiliated by having the same investment adviser. The rate shown is the 7-day SEC standardized yield as of June 30, 2016.

Portfolio Composition

By sector, based on Net Assets
as of June 30, 2016

Financials	26.5%
Information Technology	14.2
Health Care	13.6
Energy	9.8
Consumer Discretionary	8.7
U.S.Treasury Securities	6.9
Industrials	6.1
Consumer Staples	5.2
Telecommunication Services	3.3
Utilities	1.9
Materials	0.9
Money Market Funds Plus Other Assets Less Liabilities	2.9

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Statement of Assets and Liabilities

June 30, 2016
(Unaudited)

Assets:	
Investments, at value (Cost $46,548,776)	$47,226,403
Investments in affiliated money market funds, at value and cost	1,510,290
Total investments, at value (Cost $48,059,066)	48,736,693
Cash	22,798
Receivable for:	
Investments sold	190,161
Fund shares sold	1,465
Dividends and interest	147,918
Investment for trustee deferred compensation and retirement plans	64,429
Unrealized appreciation on forward foreign currency contracts outstanding	107,517
Other assets	251
Total assets	49,271,232
Liabilities:	
Payable for:	
Investments purchased	165,171
Fund shares reacquired	30,075
Variation margin – futures	241,363
Accrued fees to affiliates	59,183
Accrued trustees' and officers' fees and benefits	616
Accrued other operating expenses	31,580
Trustee deferred compensation and retirement plans	68,881
Unrealized depreciation on forward foreign currency contracts outstanding	16,219
Total liabilities	613,088
Net assets applicable to shares outstanding	$48,658,144
Net assets consist of:	
Shares of beneficial interest	$47,261,666
Undistributed net investment income	1,095,746
Undistributed net realized gain	129,715
Net unrealized appreciation	171,017
	$48,658,144
Net Assets:	
Series I	$47,272,327
Series II	$ 1,385,817
Shares outstanding, $0.001 par value per share, with an unlimited number of shares authorized:	
Series I	4,183,015
Series II	124,100
Series I:	
Net asset value per share	$ 11.30
Series II:	
Net asset value per share	$ 11.17

Statement of Operations

For the six months ended June 30, 2016
(Unaudited)

Investment income:	
Dividends (net of foreign withholding taxes of $11,972)	$ 418,082
Dividends from affiliated money market funds	4,840
Interest	193,312
Total investment income	616,234
Expenses:	
Advisory fees	148,016
Administrative services fees	81,320
Custodian fees	12,443
Distribution fees – Series II	1,758
Transfer agent fees	12,173
Trustees' and officers' fees and benefits	10,143
Reports to shareholders	2,680
Professional services fees	25,217
Other	8,029
Total expenses	301,779
Less: Fees waived	(1,740)
Net expenses	300,039
Net investment income	316,195
Realized and unrealized gain (loss) from:	
Net realized gain (loss) from:	
Investment securities	(491,306)
Foreign currencies	1,523
Forward foreign currency contracts	(33,088)
Futures contracts	(559,738)
	(1,082,609)
Change in net unrealized appreciation (depreciation) of:	
Investment securities	810,107
Foreign currencies	802
Forward foreign currency contracts	62,408
Futures contracts	(597,662)
	275,655
Net realized and unrealized gain (loss)	(806,954)
Net increase (decrease) in net assets resulting from operations	$ (490,759)

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, 2016 and the year ended December 31, 2015
(Unaudited)

	June 30, 2016	December 31, 2015
Operations:		
Net investment income	$ 316,195	$ 693,062
Net realized gain (loss)	(1,082,609)	1,602,685
Change in net unrealized appreciation (depreciation)	275,655	(3,511,913)
Net increase (decrease) in net assets resulting from operations	(490,759)	(1,216,166)
Distributions to shareholders from net investment income:		
Series I	–	(883,070)
Series II	–	(18,185)
Total distributions from net investment income	–	(901,255)
Distributions to shareholders from net realized gains:		
Series I	–	(22,008,256)
Series II	–	(561,485)
Total distributions from net realized gains	–	(22,569,741)
Share transactions–net:		
Series I	(4,611,141)	5,715,114
Series II	(100,703)	321,994
Net increase (decrease) in net assets resulting from share transactions	(4,711,844)	6,037,108
Net increase (decrease) in net assets	(5,202,603)	(18,650,054)
Net assets:		
Beginning of period	53,860,747	72,510,801
End of period (includes undistributed net investment income of $1,095,746 and $779,551, respectively)	$48,658,144	$ 53,860,747

Notes to Financial Statements

June 30, 2016
(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 ("NAV") 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 the Statement of Changes in Net Assets, or the net investment income per share and the 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 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. Collateral — To the extent the Fund has designated or segregated a security as collateral and that security is subsequently sold, it is the Fund's practice to replace such collateral no later than the next business day.

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).

The Adviser has contractually agreed, through at least June 30, 2017, to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expenses after fee waiver and/or expense reimbursement (excluding certain items discussed below) of Series I shares to 2.00% and Series II shares to 2.25% of average daily net assets (the "expense limits"). 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, 2017. During its term, the fee waiver agreement cannot be terminated or amended to increase expense limits without approval of the Board of Trustees. The Adviser did not waive fees and/or reimburse expenses during the period under these expense limits.

Further, the Adviser has contractually agreed, through at least June 30, 2018, 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, 2016, the Adviser waived advisory fees of $1,740.

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, 2016, Invesco was paid $24,864 for accounting and fund administrative services and reimbursed $56,456 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, 2016, 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, 2016, expenses incurred under the Plan are detailed in the Statement of Operations as *Distribution fees*.

For the six months ended June 30, 2016, the Fund incurred $54 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, 2016. 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	$31,136,366	$ 1,831,824	$–	$32,968,190
U.S. Treasury Securities	–	3,365,414	–	3,365,414
Corporate Debt Securities	–	12,403,089	–	12,403,089
	31,136,366	17,600,327	–	48,736,693
Forward Foreign Currency Contracts*	–	91,298	–	91,298
Futures Contracts*	(597,886)	–	–	(597,886)
Total Investments	$30,538,480	$17,691,625	$–	$48,230,105

* Unrealized appreciation (depreciation).

NOTE 4—Derivative Investments

Value of Derivative Investments at Period-End

The table below summarizes the value of the Fund's derivative investments, detailed by primary risk exposure, held as of June 30, 2016:

	Value	
Risk Exposure/Derivative Type	Assets	Liabilities
Currency risk:		
Forward foreign currency contracts[a]	$107,517	$ (16,219)
Equity risk:		
Futures contracts[b]	–	(597,886)
Total	$107,517	$(614,105)

[a] Values are disclosed on the Statement of Assets and Liabilities under the captions *Unrealized appreciation on forward foreign currency contracts outstanding and Unrealized depreciation on forward foreign currency contracts outstanding*.

[b] Includes cumulative appreciation (depreciation) of futures contracts. Only current day's variation margin receivable (payable) is reported within the Statement of Assets and Liabilities.

Effect of Derivative Investments for the six months ended June 30, 2016

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	$(33,088)	$ –
Equity risk	–	(559,738)
Change in Net Unrealized Appreciation (Depreciation):		
Currency risk	62,408	–
Equity risk	–	(597,662)
Total	$ 29,320	$(1,157,400)

The table below summarizes the average notional value of forward foreign currency contracts and the four month average notional value of futures contracts, outstanding during the period.

	Forward Foreign Currency Contracts	Futures Contracts
Average notional value	$3,235,695	$10,824,118

Open Forward Foreign Currency Contracts

Settlement Date	Counterparty	Contract to Deliver	Contract to Receive	Notional Value	Unrealized Appreciation (Depreciation)
07/01/16	Bank of New York Mellon (The)	CHF 116,765	USD 119,141	$119,601	$ (460)
07/01/16	State Street Bank and Trust Co.	CHF 116,763	USD 119,140	119,599	(459)
07/01/16	Bank of New York Mellon (The)	EUR 351,223	USD 396,741	389,714	7,027
07/01/16	State Street Bank and Trust Co.	EUR 364,131	USD 411,104	404,036	7,068
07/01/16	Bank of New York Mellon (The)	GBP 268,828	USD 393,024	357,907	35,117
07/01/16	State Street Bank and Trust Co.	GBP 349,614	USD 508,676	465,460	43,216
07/01/16	Bank of New York Mellon (The)	USD 425,519	GBP 315,433	419,955	(5,564)
07/01/16	Bank of New York Mellon (The)	USD 343,473	EUR 309,324	343,223	(250)
07/01/16	Bank of New York Mellon (The)	USD 125,768	CHF 123,253	126,247	479
07/01/16	State Street Bank and Trust Co.	USD 450,747	EUR 406,030	450,527	(220)
07/01/16	State Street Bank and Trust Co.	USD 408,878	GBP 303,007	403,412	(5,466)
07/01/16	State Street Bank and Trust Co.	USD 112,497	CHF 110,275	112,954	457
07/05/16	Bank of New York Mellon (The)	CAD 346,562	USD 268,200	268,232	(32)
07/05/16	State Street Bank and Trust Co.	CAD 346,564	USD 268,058	268,234	(176)
07/05/16	Bank of New York Mellon (The)	USD 262,196	CAD 340,461	263,510	1,314
07/05/16	State Street Bank and Trust Co.	USD 271,711	CAD 352,665	272,955	1,244
08/12/16	Bank of New York Mellon (The)	CAD 340,248	USD 262,046	263,375	(1,329)
08/12/16	State Street Bank and Trust Co.	CAD 340,247	USD 262,160	263,374	(1,214)
08/12/16	Bank of New York Mellon (The)	CHF 123,291	USD 126,103	126,614	(511)
08/12/16	State Street Bank and Trust Co.	CHF 123,290	USD 126,075	126,613	(538)
08/12/16	Bank of New York Mellon (The)	EUR 301,438	USD 335,214	334,996	218
08/12/16	State Street Bank and Trust Co.	EUR 301,438	USD 335,250	334,996	254
08/12/16	Bank of New York Mellon (The)	GBP 315,560	USD 425,786	420,287	5,499
08/12/16	State Street Bank and Trust Co.	GBP 315,560	USD 425,911	420,287	5,624
Total Forward Foreign Currency Contracts — Currency Risk					$91,298

Currency Abbreviations:

CAD – Canadian Dollar
CHF – Swiss Franc
EUR – Euro
GBP – British Pound Sterling
USD – U.S. Dollar

Open Futures Contracts — Equity Risk

Futures Contracts	Type of Contract	Number of Contracts	Expiration Month	Notional Value	Unrealized Appreciation (Depreciation)
E-Mini S&P 500 Index	Short	207	September-2016	$(21,633,570)	$(597,886)

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.

The following tables present derivative instruments that are either subject to an enforceable netting agreement or offset by collateral arrangements as of June 30, 2016.

Counterparty	Gross amounts of Recognized Assets	Gross Amounts Not Offset in the Statement of Assets and Liabilities: Financial Instruments	Collateral Received: Non-Cash	Collateral Received: Cash	Net Amount
Bank of New York Mellon (The)	$ 49,654	$ (8,146)	$–	$–	$41,508
State Street Bank and Trust Co.	57,863	(8,073)	–	–	49,790
Total	$107,517	$(16,219)	$–	$–	$91,298

Counterparty	Gross amounts of Recognized Liabilities	Gross Amounts Not Offset in the Statement of Assets and Liabilities: Financial Instruments	Collateral Pledged: Non-Cash	Collateral Pledged: Cash	Net Amount
Bank of New York Mellon (The)	$ 8,146	$ (8,146)	$–	$–	$ –
State Street Bank and Trust Co.	8,073	(8,073)	–	–	–
Total	$ 16,219	$(16,219)	$–	$–	$ –

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, 2015.

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, 2016 was $5,266,617 and $10,833,564, respectively. During the same period, purchases and sales of U.S. Treasury obligations were $20,129,934 and $19,663,549, 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	$ 3,150,397
Aggregate unrealized (depreciation) of investment securities	(2,759,003)
Net unrealized appreciation of investment securities	$ 391,394

Cost of investments for tax purposes is $48,345,299.

NOTE 9—Share Information

	Summary of Share Activity			
	Six months ended June 30, 2016[(a)]		Year ended December 31, 2015	
	Shares	Amount	Shares	Amount
Sold:				
Series I	116,830	$ 1,282,943	281,770	$ 4,951,536
Series II	2,927	31,853	4,400	73,277
Issued as reinvestment of dividends:				
Series I	–	–	2,053,034	22,891,326
Series II	–	–	52,506	579,670
Reacquired:				
Series I	(534,585)	(5,894,084)	(1,451,733)	(22,127,748)
Series II	(12,082)	(132,556)	(18,649)	(330,953)
Net increase (decrease) in share activity	(426,910)	$(4,711,844)	921,328	$ 6,037,108

(a) There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 61% 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 (losses) on securities (both realized and unrealized)	Total from investment operations	Dividends from net investment income	Distributions from net realized gains	Total distributions	Net asset value, end of period	Total return[(b)]	Net assets, end of period (000's omitted)	Ratio of expenses to average net assets with fee waivers and/or expenses absorbed	Ratio of expenses to average net assets without fee waivers and/or expenses absorbed	Ratio of net investment income to average net assets	Portfolio turnover[(c)]
Series I														
Six months ended 06/30/16	$11.38	$0.07	$(0.15)	$(0.08)	$ –	$ –	$ –	$11.30	(0.70)%	$47,272	1.21%[(d)]	1.22%[(d)]	1.29%[(d)]	53%
Year ended 12/31/15	19.02	0.18	(0.74)	(0.56)	(0.27)	(6.81)	(7.08)	11.38	(2.15)	52,360	1.08	1.10	1.07	117
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
Series II														
Six months ended 06/30/16	11.26	0.06	(0.15)	(0.09)	–	–	–	11.17	(0.80)	1,386	1.46[(d)]	1.47[(d)]	1.04[(d)]	53
Year ended 12/31/15	18.88	0.13	(0.72)	(0.59)	(0.22)	(6.81)	(7.03)	11.26	(2.37)	1,500	1.33	1.35	0.82	117
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

(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 $48,195 and $1,414 for Series I and Series II shares, respectively.

NOTE 11—Subsequent Event

Effective July 1, 2016, Invesco agreed to reduce any reimbursement made by the Fund to Invesco for administration services fees paid by Invesco to those insurance companies that have agreed to provide services to the participants of separate accounts to an amount not to exceed 0.15% of average daily net assets.

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, 2016 through June 30, 2016.

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 (01/01/16)	Ending Account Value (06/30/16)[1]	Expenses Paid During Period[2]	Ending Account Value (06/30/16)	Expenses Paid During Period[2]	Annualized Expense Ratio
Series I	$1,000.00	$993.00	$6.00	$1,018.85	$6.07	1.21%
Series II	1,000.00	992.00	7.23	1,017.60	7.32	1.46

1 The actual ending account value is based on the actual total return of the Fund for the period January 1, 2016 through June 30, 2016, after actual expenses and will differ from the hypothetical ending account value which is based on the Fund's expense ratio and a hypothetical annual return of 5% before expenses.

2 Expenses are equal to the Fund's annualized expense ratio as indicated above multiplied by the average account value over the period, multiplied by 182/366 to reflect the most recent fiscal half year.

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 7-8, 2016, 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, 2016.

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 is 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, which meet throughout the year to review the performance of funds advised by Invesco Advisers (the Invesco Funds). 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 from 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 Broadridge Financial Solutions, Inc. (Broadridge), an independent provider of investment company data. The Board also receives an independent written evaluation from the Senior Officer, an officer of the Invesco Funds who reports directly to the independent Trustees. 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 8, 2016, 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, trading operations, internal audit, 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 Board noted that 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 may 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 Broadridge 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 second quintile of the Broadridge performance universe for the one year period and the first quintile for the three and five year periods (the first quintile being the best performing funds and the fifth quintile being the worst performing funds). The Board noted that performance of Series I shares of the Fund was below the performance of the Index for the one year period and above the performance of the Index for the three and five year periods. The Trustees also reviewed more recent Fund performance and this review did not change their conclusions.

C. Advisory and Sub-Advisory Fees

The Board compared the Fund's contractual management fee rate to the contractual management fee rates of funds in the Fund's Broadridge 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" for funds in the expense group may include both advisory and certain administrative services fees, but that Broadridge does not provide information on a fund by fund basis as to what is included. The Board noted that Invesco Advisers does not separately charge the Invesco Funds for the administrative services included in the term as defined by Broadridge. The Board also reviewed the methodology used by Broadridge 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 and a report from an independent consultant engaged by the Senior Officer 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 Broadridge 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 certain 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 that the Fund may use an affiliated broker to execute certain trades for the Fund to, among other things, control information leakage, and was 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.

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SEMIANNUAL REPORT
June 30, 2016

Janus Aspen Forty Portfolio

Janus Aspen Series

HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your portfolio
- Portfolio performance, characteristics and holdings

JANUS®

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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
co-portfolio manager

Nick Schommer
co-portfolio manager

PERFORMANCE OVERVIEW

For the six-month period ended June 30, 2016, the Portfolio's Institutional Shares and Service Shares returned -1.49% and -1.63%, respectively, versus a return of 1.36% for the Portfolio's primary benchmark, the Russell 1000 Growth Index. The Portfolio's secondary benchmark, the S&P 500 Index, returned 3.84% for the period.

INVESTMENT ENVIRONMENT

The building pressure in U.S. and global equities in late 2015 led to a broad-based sell-off in early in the year. A chief concern was the fear of slower-than-expected growth in China, the world's second-largest economy. The negative sentiment was also reflected in weakness in energy markets, with the U.S. benchmark for crude oil dipping to levels not seen in over a decade. However, markets regained confidence near mid-February, with both stocks and crude retracing earlier losses.

U.S. stocks traded narrowly for much of the second half of the period as investors were able to glean enough positive news from economic data to keep stocks buoyant. The continuation of accommodative global central bank policy was also additive. Expectations of future interest rate hikes by the Federal Reserve in the near term were diminished with the May employment rate that fell well short of expectations. Markets were impacted late in June by the UK's surprise decision to leave the European Union. Stocks fell immediately after the news before recovering through the end of the month, while the dollar rose and safe-haven government bonds saw yields drop.

PERFORMANCE DISCUSSION

The Portfolio underperformed its primary benchmark, the Russell 1000 Growth Index, and its secondary benchmark, the S&P 500 Index, during the period. As part of our investment strategy, we seek companies that have clear, sustainable competitive moats around their businesses that 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 such sustainable competitive advantages can be a meaningful driver of outperformance over time because the market often underestimates the duration of growth for these companies and the long-term potential return to shareholders.

Norwegian Cruise Lines was the leading detractor during the period. The stock traded down as geopolitical concerns in Europe weighed on the willingness of North American tourists to book cruises to the region. Over the long term, however, we remain encouraged by Norwegian's potential. We appreciate the company's position in the market, and believe industry dynamics are setting up an environment for improving returns on invested capital for cruise lines. Increased cruise demand from China and to new routes such as Cuba also offer growth potential.

Another leading detractor, Regeneron Pharmaceuticals, was impacted by the broad downturn in biotech stocks during the first quarter of 2016. Slower-than-expected adoption of new drugs the company recently launched was also a headwind. Moreover, the company recently communicated that it is planning for the coming year to be an investment year, which weighed on estimates.

Alphabet Inc. (formerly known as Google) also weighed on performance. The stock underperformed due, in part, to a greater portion of internet searches going through mobile devices, which led to higher-than-expected traffic acquisition costs. There are also concerns that the company's smaller pipeline for new features may impact its ability to maintain the high level of growth it's had over the last five to six quarters. However, we believe the company is well positioned to consolidate advertising spending as advertising becomes increasingly connected and personalized, and as it transitions from offline channels such as print and television to more measurable online channels such as mobile and online video. We believe the network effects around Alphabet's advertising business and Android ecosystem will continue to grow, further deepening the company's competitive moat and enabling it to better understand users' context and intent and connect those users with suppliers of products and services.

While some stocks negatively impacted performance, we are pleased with the performance of a number of our positions. Medical device maker Boston Scientific was the leading contributor to performance during the period. During the second half of the period, the company reported stronger-than-expected earnings per share, and the pace of organic sales growth was the highest reported in over a decade. Results were especially strong in the company's interventional cardiology unit, as well as in urology and neuromodulation. Margin performance was also impressive. At the American College of Cardiology conference, strong data for transcatheter aortic valve replacement (TAVR) devices in intermediate risk patients led many to raise their estimates of the long term market potential. Boston Scientific is the number three player in the TAVR market and stands to benefit from wider acceptance of these devices.

Construction aggregate company Vulcan Materials was another leading contributor. The company performed well during the period as residential and nonresidential aggregate markets continued to recover. Improvements in highway infrastructure spending also aided the stock's performance. We believe the macroeconomic environment is favorable for continued performance by Vulcan, which we believe enjoys strong competitive advantages around its business model and quarries.

Amazon also contributed during the period. The company benefited as its first quarter results showed increased retail profitability. Continued strong growth in Amazon Web Services (AWS), its cloud business, was also additive. We believe Amazon 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.

OUTLOOK

Moving into the second half of 2016, markets are still faced with a slow-growing global economy and geopolitical pressures that are, to some degree, a reaction to slow global growth. Given the outcome of the June referendum in the UK, we expect increased geopolitical uncertainty in Europe, as well as moderately lower growth in Europe and globally as the UK navigates its exit from the European Union.

While there are concerns about the global economy, we think it underscores the importance of finding those select companies with truly sustainable competitive advantages that can take market share and continue to grow earnings, even without the backdrop of a strong global economy. Such companies are more appreciated in a world where growth is harder to come by, as they can create their own path to creating value.

Thank you for your investment in Janus Aspen Forty Portfolio.

Janus Aspen Forty Portfolio (unaudited)
Portfolio At A Glance
June 30, 2016

5 Top Performers - Holdings

	Contribution
Boston Scientific Corp.	0.72%
Vulcan Materials Co.	0.71%
Crown Castle International Corp.	0.54%
Amazon.com, Inc.	0.45%
Nielsen Holdings PLC	0.38%

5 Bottom Performers - Holdings

	Contribution
Norwegian Cruise Line Holdings, Ltd.	-0.80%
Regeneron Pharmaceuticals, Inc.	-0.67%
Alphabet, Inc. - Class C	-0.55%
E*TRADE Financial Corporation	-0.51%
Celgene Corporation	-0.51%

5 Top Performers - Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000 Growth Index Weighting
Materials	0.57%	3.06%	3.53%
Health Care	0.50%	17.30%	16.21%
Utilities	-0.01%	0.00%	0.05%
Industrials	-0.02%	9.16%	10.97%
Energy	-0.05%	0.00%	0.53%

5 Bottom Performers - Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000 Growth Index Weighting
Consumer Discretionary	-1.08%	23.68%	21.18%
Consumer Staples	-0.97%	2.28%	11.76%
Financials	-0.74%	12.81%	5.62%
Telecomunication Services	-0.44%	0.00%	2.29%
Information Technology	-0.23%	28.47%	27.85%

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.

Janus Aspen Forty Portfolio (unaudited)
Portfolio At A Glance
June 30, 2016

5 Largest Equity Holdings - (% of Net Assets)

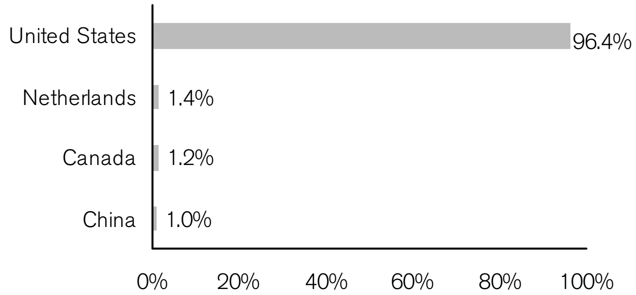
General Electric Co.	
Industrial Conglomerates	5.3%
Alphabet, Inc. - Class C	
Internet Software & Services	5.1%
Lowe's Cos., Inc.	
Specialty Retail	5.1%
Amazon.com, Inc.	
Internet & Catalog Retail	4.9%
Zoetis, Inc.	
Pharmaceuticals	4.6%
	25.0%

Asset Allocation - (% of Net Assets)

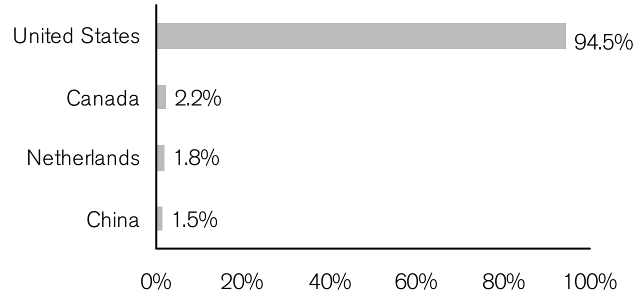
Common Stocks	96.7%
Investment Companies	6.6%
Other	(3.3)%
	100.0%

Top Country Allocations - Long Positions - (% of Investment Securities)

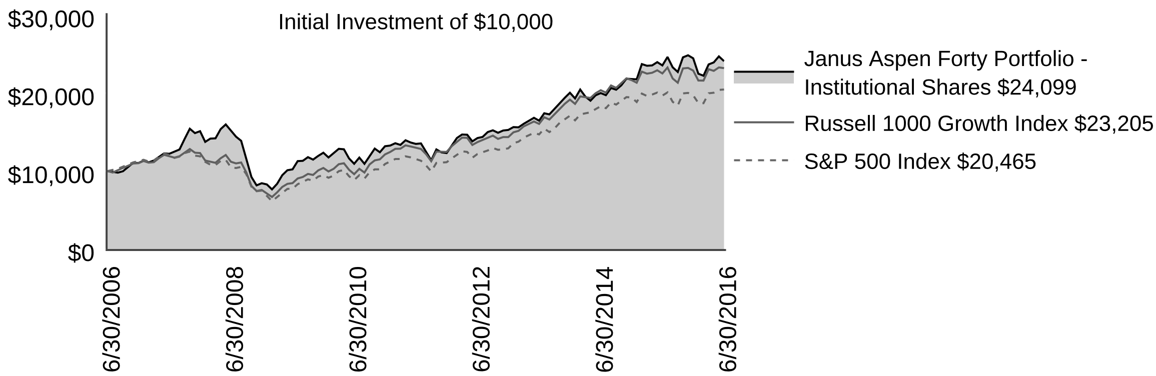
As of June 30, 2016



As of December 31, 2015



Janus Aspen Forty Portfolio (unaudited)
Performance



Average Annual Total Return - for the periods ended June 30, 2016	Fiscal Year-to-Date	One Year	Five Year	Ten Year	Since Inception*	Expense Ratios - per the May 1, 2016 prospectuses: Total Annual Fund Operating Expenses
Institutional Shares	-1.49%	2.31%	12.31%	9.19%	10.64%	0.74%
Service Shares	-1.63%	2.03%	12.02%	8.92%	10.32%	0.99%
Russell 1000 Growth Index	1.36%	3.02%	12.35%	8.78%	6.50%	
S&P 500 Index	3.84%	3.99%	12.10%	7.42%	7.15%	
Morningstar Quartile - Institutional Shares	-	1st	1st	1st	1st	
Morningstar Ranking - based on total returns for Large Growth Funds	-	169/1,679	127/1,512	102/1,314	16/731	

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.

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.

See Financial Highlights for actual expense ratios during the reporting period.

Performance for Service Shares prior to December 31, 1999 reflects the performance of Institutional Shares, adjusted to reflect the expenses of Service Shares.

Ranking is for the share class shown only; other classes may have different performance characteristics.

There is no assurance that the investment process will consistently lead to successful investing.

See important disclosures on the next page.

Janus Aspen Forty Portfolio (unaudited)
Performance

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."

Effective January 12, 2016, Douglas Rao and Nick Schommer are Co-Portfolio Managers of the Portfolio.

*The Portfolio's inception date – May 1, 1997

Janus Aspen Forty Portfolio (unaudited)
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, such as any charges at the separate account level or contract level. 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 (1/1/16)	Ending Account Value (6/30/16)	Expenses Paid During Period (1/1/16 - 6/30/16)†	Beginning Account Value (1/1/16)	Ending Account Value (6/30/16)	Expenses Paid During Period (1/1/16 - 6/30/16)†	Net Annualized Expense Ratio (1/1/16 - 6/30/16)
Institutional Shares	$1,000.00	$985.10	$3.45	$1,000.00	$1,021.38	$3.52	0.70%
Service Shares	$1,000.00	$983.70	$4.69	$1,000.00	$1,020.14	$4.77	0.95%

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 182/366 (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)
June 30, 2016

	Shares	Value
Common Stocks – 96.7%		
Automobiles – 0.8%		
Tesla Motors, Inc.*,#	28,318	$6,011,345
Biotechnology – 4.9%		
Celgene Corp.*	277,664	27,386,000
Regeneron Pharmaceuticals, Inc.*	26,246	9,165,891
		36,551,891
Capital Markets – 2.0%		
Charles Schwab Corp.	329,622	8,342,733
E*TRADE Financial Corp.*	289,965	6,811,278
		15,154,011
Construction Materials – 3.2%		
Vulcan Materials Co.	197,179	23,732,465
Consumer Finance – 1.5%		
Synchrony Financial	433,380	10,955,846
Diversified Financial Services – 5.0%		
Intercontinental Exchange, Inc.	95,821	24,526,343
S&P Global, Inc.	118,110	12,668,479
		37,194,822
Food & Staples Retailing – 2.7%		
Costco Wholesale Corp.	128,836	20,232,405
Health Care Equipment & Supplies – 4.1%		
Boston Scientific Corp.*	1,095,641	25,605,130
DexCom, Inc.*	60,670	4,812,951
		30,418,081
Hotels, Restaurants & Leisure – 4.0%		
Chipotle Mexican Grill, Inc.*	19,904	8,016,535
Norwegian Cruise Line Holdings, Ltd.*,#	215,480	8,584,723
Starbucks Corp.	224,653	12,832,179
		29,433,437
Industrial Conglomerates – 5.3%		
General Electric Co.	1,254,187	39,481,807
Information Technology Services – 4.0%		
MasterCard, Inc. - Class A	335,147	29,513,045
Internet & Catalog Retail – 7.3%		
Amazon.com, Inc.*	51,230	36,661,213
Ctrip.com International, Ltd. (ADR)*,#	184,914	7,618,457
Priceline Group, Inc.*	8,123	10,140,834
		54,420,504
Internet Software & Services – 10.7%		
Alphabet, Inc. - Class C*	54,701	37,858,562
CoStar Group, Inc.*	98,737	21,589,832
Facebook, Inc. - Class A*	173,352	19,810,667
		79,259,061
Life Sciences Tools & Services – 1.8%		
Quintiles Transnational Holdings, Inc.*	202,151	13,204,503
Media – 2.1%		
Time Warner, Inc.	210,875	15,507,748
Pharmaceuticals – 7.6%		
Bristol-Myers Squibb Co.	305,134	22,442,606
Zoetis, Inc.	712,131	33,797,737
		56,240,343
Professional Services – 2.0%		
Nielsen Holdings PLC	287,206	14,926,096
Real Estate Investment Trusts (REITs) – 3.3%		
Crown Castle International Corp.	239,786	24,321,494
Road & Rail – 1.2%		
Canadian Pacific Railway, Ltd. (U.S. Shares)	72,527	9,340,752
Semiconductor & Semiconductor Equipment – 1.4%		
NXP Semiconductors NV*	135,648	10,626,664

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Janus Aspen Forty Portfolio
Schedule of Investments (unaudited)
June 30, 2016

	Shares	Value
Common Stocks – (continued)		
Software – 10.3%		
Activision Blizzard, Inc.	432,835	$17,153,251
Adobe Systems, Inc.*	253,620	24,294,260
Salesforce.com, Inc.*	262,350	20,833,214
Workday, Inc. - Class A*,#	187,306	13,986,139
		76,266,864
Specialty Retail – 6.8%		
Advance Auto Parts, Inc.	77,761	12,568,510
Lowe's Cos., Inc.	476,881	37,754,669
		50,323,179
Technology Hardware, Storage & Peripherals – 2.2%		
Apple, Inc.	174,004	16,634,782
Textiles, Apparel & Luxury Goods – 2.5%		
NIKE, Inc. - Class B	338,584	18,689,837
Total Common Stocks (cost $569,584,540)		718,440,982
Investment Companies – 6.6%		
Investments Purchased with Cash Collateral from Securities Lending – 2.0%		
Janus Cash Collateral Fund LLC, 0.4719%°°,£	14,828,833	14,828,833
Money Markets – 4.6%		
Janus Cash Liquidity Fund LLC, 0.4506%°°,£	33,904,538	33,904,538
Total Investment Companies (cost $48,733,371)		48,733,371
Total Investments (total cost $618,317,911) – 103.3%		767,174,353
Liabilities, net of Cash, Receivables and Other Assets – (3.3)%		(24,699,814)
Net Assets – 100%		$742,474,539

Summary of Investments by Country - (Long Positions) (unaudited)

Country	*Value*	*% of Investment Securities*
United States	$739,588,480	96.4 %
Netherlands	10,626,664	1.4
Canada	9,340,752	1.2
China	7,618,457	1.0
Total	$767,174,353	100.0 %

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Russell 1000® Growth Index	Measures the performance of those Russell 1000 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.

ºº Rate shown is the 7-day yield as of June 30, 2016.

\# Loaned security; a portion of the security is on loan at June 30, 2016.

£ 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. The following securities were considered affiliated companies for all or some portion of the period ended June 30, 2016. Unless otherwise indicated, all information in the table is for the period ended June 30, 2016.

	Share Balance at 12/31/15	*Purchases*	*Sales*	*Share Balance at 6/30/16*	*Realized Gain/(Loss)*	*Dividend Income*	*Value at 6/30/16*
Janus Cash Collateral Fund LLC	—	102,419,692	(87,590,859)	14,828,833	$—	$58,875[(1)]	$14,828,833
Janus Cash Liquidity Fund LLC	24,691,025	115,957,513	(106,744,000)	33,904,538	—	40,829	33,904,538
Total					$—	$99,704	$48,733,371

(1) Net of income paid to the securities lending agent and rebates paid to the borrowing counterparties.

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, 2016. See Notes to Financial Statements for more information.

Valuation Inputs Summary

	Level 1 - Quoted Prices	***Level 2 - Other Significant Observable Inputs***	***Level 3 - Significant Unobservable Inputs***
Assets			
Investments in Securities:			
Common Stocks	$ 718,440,982	$ -	$ -
Investment Companies	-	48,733,371	-
Total Assets	$ 718,440,982	$ 48,733,371	$ -

Janus Aspen Forty Portfolio
Statement of Assets and Liabilities (unaudited)
June 30, 2016

Assets:		
Investments, at cost	$	618,317,911
Unaffiliated investments, at value(1)		718,440,982
Affiliated investments, at value		48,733,371
Cash		26
Non-interested Trustees' deferred compensation		13,438
Receivables:		
Investments sold		5,277,570
Dividends		509,426
Foreign tax reclaims		68,884
Portfolio shares sold		47,878
Dividends from affiliates		6,496
Other assets		1,731
Total Assets		773,099,802
Liabilities:		
Collateral for securities loaned (Note 2)		14,828,833
Payables:		
Investments purchased		14,540,429
Portfolio shares repurchased		485,314
Advisory fees		431,137
12b-1 Distribution and shareholder servicing fees		96,996
Transfer agent fees and expenses		31,320
Non-interested Trustees' deferred compensation fees		13,438
Professional fees		12,365
Portfolio administration fees		5,859
Non-interested Trustees' fees and expenses		5,075
Accrued expenses and other payables		174,497
Total Liabilities		30,625,263
Net Assets	$	742,474,539
Net Assets Consist of:		
Capital (par value and paid-in surplus)	$	586,576,562
Undistributed net investment income/(loss)		251,067
Undistributed net realized gain/(loss) from investments and foreign currency transactions		6,791,080
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation		148,855,830
Total Net Assets	$	742,474,539
Net Assets - Institutional Shares	$	275,764,827
Shares Outstanding, $0.01 Par Value (unlimited shares authorized)		8,888,232
Net Asset Value Per Share	$	31.03
Net Assets - Service Shares	$	466,709,712
Shares Outstanding, $0.01 Par Value (unlimited shares authorized)		15,706,580
Net Asset Value Per Share	$	29.71

(1) Includes $14,505,337 of securities on loan. See Note 2 in Notes to Financial Statements.

See Notes to Financial Statements.

Janus Aspen Forty Portfolio
Statement of Operations (unaudited)
For the period ended June 30, 2016

Investment Income:		
Dividends	$	3,327,334
Affiliated securities lending income, net		58,875
Dividends from affiliates		40,829
Foreign tax withheld		(9,724)
Total Investment Income		3,417,314
Expenses:		
Advisory fees		2,328,887
12b-1Distribution and shareholder servicing fees:		
Service Shares		567,097
Transfer agent administrative fees and expenses:		
Institutional Shares		23,194
Service Shares		39,508
Other transfer agent fees and expenses:		
Institutional Shares		1,149
Service Shares		1,285
Portfolio administration fees		29,985
Professional fees		20,665
Non-interested Trustees' fees and expenses		11,173
Registration fees		7,770
Custodian fees		3,554
Other expenses		115,853
Total Expenses		3,150,120
Net Investment Income/(Loss)		267,194
Net Realized Gain/(Loss) on Investments:		
Investments and foreign currency transactions		6,896,668
Total Net Realized Gain/(Loss) on Investments		6,896,668
Change in Unrealized Net Appreciation/Depreciation:		
Investments, foreign currency translations and non-interested Trustees' deferred compensation		(21,258,807)
Total Change in Unrealized Net Appreciation/Depreciation		(21,258,807)
Net Increase/(Decrease) in Net Assets Resulting from Operations	$	(14,094,945)

See Notes to Financial Statements.

Janus Aspen Forty Portfolio
Statements of Changes in Net Assets

		Period ended June 30, 2016 (unaudited)		Year ended December 31, 2015
Operations:				
Net investment income/(loss)	$	267,194	$	(1,217,012)
Net realized gain/(loss) on investments		6,896,668		103,601,643
Change in unrealized net appreciation/depreciation		(21,258,807)		(11,093,868)
Net Increase/(Decrease) in Net Assets Resulting from Operations		(14,094,945)		91,290,763
Dividends and Distributions to Shareholders:				
Distributions from Net Realized Gain from Investment Transactions				
Institutional Shares		(37,062,653)		(57,445,111)
Service Shares		(65,123,788)		(102,554,820)
Net Decrease from Dividends and Distributions to Shareholders		(102,186,441)		(159,999,931)
Capital Share Transactions:				
Institutional Shares		22,091,435		18,828,189
Service Shares		39,935,656		54,810,568
Net Increase/(Decrease) from Capital Share Transactions		62,027,091		73,638,757
Net Increase/(Decrease) in Net Assets		(54,254,295)		4,929,589
Net Assets:				
Beginning of period		796,728,834		791,799,245
End of period	$	742,474,539	$	796,728,834
Undistributed Net Investment Income/(Loss)	$	251,067	$	(16,127)

See Notes to Financial Statements.

Janus Aspen Forty Portfolio
Financial Highlights

Institutional Shares

For a share outstanding during the period ended June 30, 2016 (unaudited) and each year ended December 31	2016	2015	2014	2013	2012	2011
Net Asset Value, Beginning of Period	$36.37	$40.27	$53.34	$40.95	$33.22	$35.74
Income/(Loss) from Investment Operations:						
Net investment income/(loss)	0.01(1)	0.03(1)	0.03(1)	0.38	0.47	0.23
Net realized and unrealized gain/(loss)	(0.54)	4.77	3.08	12.34	7.54	(2.62)
Total from Investment Operations	(0.53)	4.80	3.11	12.72	8.01	(2.39)
Less Dividends and Distributions:						
Dividends (from net investment income)	—	—	(0.09)	(0.33)	(0.28)	(0.13)
Distributions (from capital gains)	(4.81)	(8.70)	(16.09)	—	—	—
Total Dividends and Distributions	(4.81)	(8.70)	(16.18)	(0.33)	(0.28)	(0.13)
Net Asset Value, End of Period	$31.03	$36.37	$40.27	$53.34	$40.95	$33.22
Total Return*	(1.49)%	12.22%	8.73%	31.23%	24.16%	(6.69)%
Net Assets, End of Period (in thousands)	$275,765	$295,725	$299,546	$355,429	$488,374	$459,459
Average Net Assets for the Period (in thousands)	$273,189	$298,904	$307,359	$491,231	$512,799	$518,818
Ratios to Average Net Assets**:						
Ratio of Gross Expenses	0.70%	0.69%	0.57%	0.55%	0.55%	0.70%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.70%	0.69%	0.57%	0.55%	0.55%	0.70%
Ratio of Net Investment Income/(Loss)	0.06%	0.08%	0.07%	0.31%	1.03%	0.56%
Portfolio Turnover Rate	22%	55%	46%	61%	10%	46%

Service Shares

For a share outstanding during the period ended June 30, 2016 (unaudited) and each year ended December 31	2016	2015	2014	2013	2012	2011
Net Asset Value, Beginning of Period	$35.08	$39.21	$52.40	$40.28	$32.72	$35.24
Income/(Loss) from Investment Operations:						
Net investment income/(loss)	(0.03)(1)	(0.06)(1)	(0.07)(1)	—(2)	0.31	0.09
Net realized and unrealized gain/(loss)	(0.53)	4.63	2.99	12.38	7.47	(2.52)
Total from Investment Operations	(0.56)	4.57	2.92	12.38	7.78	(2.43)
Less Dividends and Distributions:						
Dividends (from net investment income)	—	—	(0.02)	(0.26)	(0.22)	(0.09)
Distributions (from capital gains)	(4.81)	(8.70)	(16.09)	—	—	—
Total Dividends and Distributions	(4.81)	(8.70)	(16.11)	(0.26)	(0.22)	(0.09)
Net Asset Value, End of Period	$29.71	$35.08	$39.21	$52.40	$40.28	$32.72
Total Return*	(1.63)%	11.94%	8.47%	30.89%	23.82%	(6.91)%
Net Assets, End of Period (in thousands)	$466,710	$501,003	$492,253	$526,971	$471,002	$417,408
Average Net Assets for the Period (in thousands)	$464,511	$501,868	$493,575	$486,845	$468,967	$475,743
Ratios to Average Net Assets**:						
Ratio of Gross Expenses	0.95%	0.94%	0.82%	0.81%	0.80%	0.95%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.95%	0.94%	0.82%	0.81%	0.80%	0.95%
Ratio of Net Investment Income/(Loss)	(0.19)%	(0.17)%	(0.17)%	0.04%	0.81%	0.31%
Portfolio Turnover Rate	22%	55%	46%	61%	10%	46%

* 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.

1. Organization and Significant Accounting Policies

Janus Aspen Forty Portfolio (the "Portfolio") is a series fund. The Portfolio is part of Janus Aspen Series (the "Trust"), which is organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company, and therefore has applied the specialized accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. The Trust offers twelve portfolios which include multiple series of shares, with differing investment objectives and policies. The Portfolio seeks long-term growth of capital. 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. Each class represents an interest in the same portfolio of investments. 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, 2016 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. 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 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. In particular, many EU nations are susceptible to economic risks associated with high levels of debt, notably due to investments in sovereign debt of countries such as Greece, Italy, Spain, Portugal, and Ireland. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts. Many other issuers have faced difficulties obtaining credit or refinancing existing obligations. Financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit. As a result, financial markets in the EU experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world. Greece, Ireland, and Portugal have already received one or more "bailouts" from other Eurozone member states, and it is unclear how much additional funding they will require or if additional Eurozone member states will require bailouts in the future. The risk of investing in securities in the European markets may also be heightened due to the referendum in which the United Kingdom voted to exit the EU (known as "Brexit"). One or more other countries may also abandon the euro and/or withdraw from the EU, placing its currency and banking system in jeopardy.

Certain areas of the world have historically been prone to and economically sensitive to environmental events such as, but not limited to, hurricanes, earthquakes, typhoons, flooding, tidal waves, tsunamis, erupting volcanoes, wildfires or droughts, tornadoes, mudslides, or other weather-related phenomena. Such disasters, and the resulting physical or economic damage, could have a severe and negative impact on the Portfolio's investment portfolio and, in the longer term, could impair the ability of issuers in which the Portfolio invests to conduct their businesses as they would under normal conditions. Adverse weather conditions may also have a particularly significant negative effect on issuers in the agricultural sector and on insurance companies that insure against the impact of natural disasters.

Counterparties

Portfolio transactions involving a counterparty are subject to the risk that the counterparty or a third party will not fulfill its obligation to the Portfolio ("counterparty risk"). Counterparty risk may arise because of the counterparty's financial condition (i.e., financial difficulties, bankruptcy, or insolvency), market activities and developments, or other reasons, whether foreseen or not. A counterparty's inability to fulfill its obligation may result in significant financial loss to the Portfolio. The Portfolio may be unable to recover its investment from the counterparty or may obtain a limited recovery, and/or recovery may be delayed. The extent of the Portfolio's exposure to counterparty risk with respect to financial assets and liabilities approximates its carrying value. See the "Offsetting Assets and Liabilities" section of this Note for further details.

The Portfolio may be exposed to counterparty risk through participation in various programs, including, but not limited to, lending its securities to third parties, cash sweep arrangements whereby the Portfolio's cash balance is invested in one or more types of cash management vehicles, as well as investments in, but not limited to, repurchase agreements, debt securities, and derivatives, including various types of swaps, futures and options. The Portfolio intends to enter into financial transactions with counterparties that Janus Capital believes to be creditworthy at the time of the transaction. There is always the risk that Janus Capital's analysis of a counterparty's creditworthiness is incorrect or may change due to market conditions. To the extent that the Portfolio focuses its transactions with a limited number of counterparties, it will have greater exposure to the risks associated with one or more counterparties.

Offsetting Assets and Liabilities

The Portfolio presents gross and net information about transactions that are either offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement with a designated counterparty, regardless of whether the transactions are actually offset in the Statement of Assets and Liabilities.

In order to better define its contractual rights and to secure rights that will help the Portfolio mitigate its counterparty risk, the Portfolio has entered into an International Swaps and Derivatives Association, Inc. Master Agreement ("ISDA Master Agreement") or similar agreement with its derivative contract counterparties. An ISDA Master Agreement is a bilateral agreement between the Portfolio and a counterparty that governs OTC derivatives and forward foreign currency exchange contracts and typically contains, among other things, collateral posting terms and netting provisions in the event of a default and/or termination event. Under an ISDA Master Agreement, in the event of a default and/or termination event, the Portfolio may offset with each counterparty certain derivative financial instruments' payables and/or receivables with collateral held and/or posted and create one single net payment. For financial reporting purposes, the Portfolio does not offset certain derivative financial instruments' payables and receivables and related collateral on the Statement of Assets and Liabilities.

The following table presents gross amounts of recognized assets and/or liabilities and the net amounts after deducting collateral that has been pledged by counterparties or has been pledged to counterparties (if applicable). For corresponding information grouped by type of instrument, see the Portfolio's Schedule of Investments.

Offsetting of Financial Assets and Derivative Assets

Counterparty	*Gross Amounts of Recognized Assets*	*Offsetting Asset or Liability*[(a)]	*Collateral Pledged*[(b)]	*Net Amount*
Deutsche Bank AG	$ 14,505,337	$ —	$ (14,505,337)	$ —

(a) Represents the amount of assets or liabilities that could be offset with the same counterparty under master netting or similar agreements that management elects not to offset on the Statement of Assets and Liabilities.

(b) Collateral pledged is limited to the net outstanding amount due to/from an individual counterparty. The actual collateral amounts pledged may exceed these amounts and may fluctuate in value.

Deutsche Bank AG acts as securities lending agent and a limited purpose custodian or subcustodian to receive and disburse cash balances and cash collateral, hold short-term investments, hold collateral, and perform other custodian functions. Securities on loan will be continuously secured by collateral which may consist of cash, U.S. Government securities, domestic and foreign short-term debt instruments, letters of credit, time deposits, repurchase agreements, money market mutual funds or other money market accounts, or such other collateral as permitted by the SEC. The value of the collateral must be at least 102% of the market value of the loaned securities that are denominated in U.S. dollars and 105% of the market value of the loaned securities that are not denominated in U.S. dollars. Upon receipt of cash collateral, Janus Capital intends to invest the cash collateral in a cash management vehicle for which Janus Capital serves as investment adviser, Janus Cash Collateral Fund LLC. Loaned securities and related collateral are marked-to-market each business day based upon the market value of the loaned securities at the close of business, employing the most recent available pricing information. Collateral levels are then adjusted based on this mark-to-market evaluation.

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.

Securities Lending

Under procedures adopted by the Trustees, the Portfolio may seek to earn additional income by lending securities to qualified parties. Deutsche Bank AG acts as securities lending agent and a limited purpose custodian or subcustodian to receive and disburse cash balances and cash collateral, hold short-term investments, hold collateral, and perform other custodian functions. The Portfolio may lend portfolio securities in an amount equal to up to 1/3 of its total assets as determined at the time of the loan origination. There is the risk of delay in recovering a loaned security or the risk of loss in collateral rights if the borrower fails financially. In addition, Janus Capital makes efforts to balance the benefits and risks from granting such loans. All loans will be continuously secured by collateral which may consist of cash, U.S. Government securities, domestic and foreign short-term debt instruments, letters of credit, time deposits, repurchase agreements, money market mutual funds or other money market accounts, or such other collateral as permitted by the

SEC. If the Portfolio is unable to recover a security on loan, the Portfolio may use the collateral to purchase replacement securities in the market. There is a risk that the value of the collateral could decrease below the cost of the replacement security by the time the replacement investment is made, resulting in a loss to the Portfolio.

Upon receipt of cash collateral, Janus Capital may invest it in affiliated or non-affiliated cash management vehicles, whether registered or unregistered entities, as permitted by the 1940 Act and rules promulgated thereunder. Janus Capital currently intends to invest the cash collateral in a cash management vehicle for which Janus Capital serves as investment adviser, Janus Cash Collateral Fund LLC. An investment in Janus Cash Collateral Fund LLC is generally subject to the same risks that shareholders experience when investing in similarly structured vehicles, such as the potential for significant fluctuations in assets as a result of the purchase and redemption activity of the securities lending program, a decline in the value of the collateral, and possible liquidity issues. Such risks may delay the return of the cash collateral and cause the Portfolio to violate its agreement to return the cash collateral to a borrower in a timely manner. As adviser to the Portfolio and Janus Cash Collateral Fund LLC, Janus Capital has an inherent conflict of interest as a result of its fiduciary duties to both the Portfolio and Janus Cash Collateral Fund LLC. Additionally, Janus Capital receives an investment advisory fee of 0.05% for managing Janus Cash Collateral Fund LLC, but it may not receive a fee for managing certain other affiliated cash management vehicles in which the Portfolio may invest, and therefore may have an incentive to allocate preferred investment opportunities to investment vehicles for which it is receiving a fee.

The value of the collateral must be at least 102% of the market value of the loaned securities that are denominated in U.S. dollars and 105% of the market value of the loaned securities that are not denominated in U.S. dollars. Loaned securities and related collateral are marked-to-market each business day based upon the market value of the loaned securities at the close of business, employing the most recent available pricing information. Collateral levels are then adjusted based on this mark-to-market evaluation.

The cash collateral invested by Janus Capital is disclosed in the Schedule of Investments. Income earned from the investment of the cash collateral, net of rebates paid to, or fees paid by, borrowers and less the fees paid to the lending agent are included as “Affiliated securities lending income, net” on the Statement of Operations. As of June 30, 2016, securities lending transactions accounted for as secured borrowings with an overnight and continuous contractual maturity are $14,505,337. Gross amounts of recognized liabilities for securities lending (collateral received) as of June 30, 2016 is $14,828,833, resulting in the net amount due to the counterparty of $323,496.

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 Portfolio’s base fee rate prior to any performance adjustment (expressed as an annual rate) is 0.64%.

The investment advisory fee rate is determined by calculating a base fee and applying a performance adjustment. The base fee rate is the same as the contractual investment advisory fee rate. The performance adjustment either increases or decreases the base fee depending on how well the Portfolio has performed relative to its benchmark index. The Portfolio's benchmark index used in the calculation is the 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, which is generally the previous 36 months.

The Portfolio’s prospectuses and statement(s) 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. For the period ended June 30, 2016, the performance adjusted investment advisory fee rate before any waivers and/or reimbursements of expenses is 0.65%.

Janus Services LLC (“Janus Services”), a wholly-owned subsidiary of Janus Capital, is the Portfolio’s transfer agent. Effective May 1, 2016, Janus Services receives an administrative services fee at an annual rate of 0.05% of the average daily net assets of the Portfolio for arranging for the provision by participating insurance companies and qualified plan service providers of administrative services, including recordkeeping, subaccounting, order processing, or other shareholder services provided on behalf of contract holders or plan participants investing in the Portfolio. Other shareholder services may include the provision of order confirmations, periodic account statements, forwarding prospectuses, shareholder reports, and other materials to existing investors, and answering inquiries regarding accounts. Janus Services expects to use this entire fee to compensate insurance companies and qualified plan service providers for providing these services to their customers who invest in the Portfolio. Any unused portion will be reimbursed to the applicable share class at least annually.

In addition, Janus Services provides or arranges for the provision of certain other internal administrative, recordkeeping, and shareholder relations services for the Portfolio. Janus Services is not compensated for these internal services related to the shares, except for out-of-pocket costs. These amounts are disclosed as “Other transfer agent fees and expenses” on the Statement of Operations.

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 (“Janus Distributors”), 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 shareholder 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 servicing fees, and the payments may exceed 12b-1 distribution and servicing fees actually incurred. If any of the Portfolio’s actual 12b-1 distribution and servicing fees 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). In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. 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. Some expenses related to compensation payable to the Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of $28,304 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the period ended June 30, 2016. 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, 2016 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, 2016 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 $20,150 were paid by the Trust to a Trustee under the Deferred Plan during the period ended June 30, 2016.

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, 2016 can be found in a table located in the Notes to Schedule of Investments and Other Information.

The Portfolio is permitted to purchase or sell securities ("cross-trade") between itself and other funds or accounts managed by Janus Capital Management LLC in accordance with Rule 17a-7 under the Investment Company Act of 1940 ("Rule 17a-7"), when the transaction is consistent with the investment objectives and policies of the Portfolio and in accordance with the Internal Cross Trade Procedures adopted by the Trust's Board of Trustees. These procedures have been designed to ensure that any cross-trade of securities by the Portfolio from or to another fund or account that is or could be considered an affiliate of the Portfolio under certain limited circumstances by virtue of having a common investment adviser, common Officer, or common Trustee complies with Rule 17a-7. Under these procedures, each cross-trade is effected at the current market price to save costs where allowed. During the period ended June 30, 2016, the Portfolio engaged in cross trades amounting to $570,095 in purchases and $1,835,025 in sales, resulting in a net realized loss of $15,382. The net realized loss is included in "Investments and foreign currency transactions" within the "Net Realized and Unrealized Gain/(Loss) on Investments" section of the Portfolio's Statement of Operations.

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, 2016 are noted below.

Unrealized appreciation and unrealized depreciation in the table below exclude appreciation/depreciation on foreign currency translations. The primary differences between book and tax appreciation or depreciation of investments are wash sale loss deferrals and investments in partnerships.

Federal Tax Cost	*Unrealized Appreciation*	*Unrealized (Depreciation)*	*Net Tax Appreciation/ (Depreciation)*
$ 618,495,918	$168,201,204	$(19,522,769)	$ 148,678,435

5. Capital Share Transactions

	Period ended June 30, 2016		Year ended December 31, 2015	
	Shares	Amount	Shares	Amount
Institutional Shares:				
Shares sold	396,172	$13,600,635	1,146,883	$ 44,193,370
Reinvested dividends and distributions	1,192,492	37,062,653	1,601,927	57,445,111
Shares repurchased	(831,055)	(28,571,853)	(2,057,242)	(82,810,292)
Net Increase/(Decrease)	757,609	$22,091,435	691,568	$ 18,828,189
Service Shares:				
Shares sold	795,250	$26,421,404	1,444,396	$ 53,479,766
Reinvested dividends and distributions	2,187,564	65,123,788	2,961,444	102,554,820
Shares repurchased	(1,557,081)	(51,609,536)	(2,680,089)	(101,224,018)
Net Increase/(Decrease)	1,425,733	$39,935,656	1,725,751	$ 54,810,568

6. Purchases and Sales of Investment Securities

For the period ended June 30, 2016, 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:

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
$158,277,914	$ 197,968,366	$ -	$ -

7. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to June 30, 2016 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.

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 9, 2015, 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, 2016 through January 1 or February 1, 2017, 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 a number of institutional competitive advantages that should enable it to provide superior investment and service performance 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 Broadridge Financial Solutions, Inc. ("Broadridge"), 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 been strong: for the 36 months ended September 30, 2015, approximately 70% of the Funds were in the top two Broadridge quartiles of performance, and for the 12 months ended September 30, 2015, approximately 61% of the Funds were in the top two Broadridge 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 third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. 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 Global Bond Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Unconstrained Bond Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 High-Yield Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. 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 Multi-Sector Income Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Real Return Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

- For Janus Short-Term Bond Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. 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 Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Global Allocation Fund – Moderate, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.

Alternative Fund

- For Janus Diversified Alternatives Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2015.

Value Funds

- For Perkins International Value Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Perkins Global Value Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. 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 Large Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.

- For Perkins Small Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.
- For Perkins Value Plus Income Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.

Mathematical Funds

- For INTECH Emerging Markets Managed Volatility Fund, the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For INTECH Global Income Managed Volatility Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For INTECH International Managed Volatility Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital and INTECH had taken or were taking to improve performance.
- For INTECH U.S. Core Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For INTECH U.S. Managed Volatility Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.

Growth and Core Funds

- For Janus Balanced Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Contrarian Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Enterprise Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Forty Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Growth and Income Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and in the third Broadridge quartile for the 12 months ended May 31, 2015. 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 Research Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

- For Janus Triton Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Twenty Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Venture Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

Global and International Funds

- For Janus Asia Equity Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015. 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 Emerging Markets Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Real Estate Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Research Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Select Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Technology Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. 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 International Equity Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Overseas Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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.

Janus Aspen Series

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Allocation Portfolio – Moderate, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile-for the 12 months ended May 31, 2015.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Unconstrained Bond Portfolio, the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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.

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 and subadvisory 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 Broadridge, 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.

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 14% below the mean total expenses of their respective Broadridge Expense Group peers and 24% below the mean total expenses for their Broadridge Expense Universes; (3) management fees for the Funds, on average, were 15% below the mean management fees for their Expense Groups and 19% below the mean for their Expense Universes; and (4) Fund expenses at the functional level for each asset and share class category were reasonable. The Trustees also considered the total expenses for each share class of each Fund compared to the mean total expenses for its Broadridge Expense Group peers and to mean total expenses for its Broadridge 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, breakpoints, and expense waivers 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 and other costs 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) by one estimation methodology, the fee margins implied by Janus Capital's subadvised fees when compared to its mutual fund fees are reasonable relative to the estimated fee margins in the industry and relative to estimated fee margins of fund managers using Janus Capital as a subadviser.

The Trustees considered the fees for each Fund for its fiscal year ended in 2014, 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 exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Unconstrained Bond Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus High-Yield Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Multi-Sector 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 has contractually agreed to limit the Fund's expenses.
- 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 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 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, 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.

Alternative Fund

- 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, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable.

- For Perkins Large Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- 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 the Fund's total expenses were below the peer group mean for all share classes.
- For Perkins Value Plus Income Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.

Mathematical Funds

- For INTECH Emerging Markets Managed Volatility 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 INTECH Global Income Managed Volatility 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, 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 had contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For INTECH U.S. Core Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For INTECH U.S. Managed Volatility Fund, the Trustees noted that the Fund's total expenses exceeded the peer group mean for one share class. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.

Growth and Core Funds

- For Janus Balanced 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 Contrarian 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 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 the Fund's total expenses were below the peer group mean for all share classes.

- 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, 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.

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, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global 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 the Fund's total expenses were below the peer group mean for all share classes.
- 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.

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, 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 had contractually agreed to limit the Fund's expenses.
- 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 Global Unconstrained Bond Portfolio, 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 had contractually agreed to limit the Fund's expenses.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for its sole share class.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Perkins Mid Cap Value Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.

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 and resources 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 reasonable.

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 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 provided an analysis of economies of scale, which included discussion of analysis from 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, their independent fee consultant concluded that 85% of these Funds have contractual management fees (gross of waivers) below their Broadridge expense group averages and, overall, 80% of the Funds are below their respective expense group averages for contractual management fees. 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 some 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.

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, its analyses 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 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 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.

Janus Aspen Forty Portfolio
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, 2016. 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 are not available for investment and do not reflect deduction of expenses.

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, swaptions, 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.

Janus Aspen Forty Portfolio
Useful Information About Your Portfolio Report (unaudited)

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. 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 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.

Janus Aspen Forty Portfolio
Shareholder Meeting (unaudited)

A Special Meeting of Shareholders of the Portfolio was held on June 14, 2016. At the meeting, the following matter was voted on and approved by the Shareholders. Each whole or fractional vote reported represents one whole or fractional dollar of net asset value held on the record date for the meeting. The results of the Special Meeting of Shareholders are noted below.

Proposal
To elect eight Trustees, each of whom is considered "independent."

		Number of Votes ($)		
Trustees	*Record Date Votes ($)*	*Affirmative*	*Withheld*	*Total*
Alan A. Brown	7,477,409,597.098	6,576,576,690.332	262,206,698.204	6,838,783,388.536
William D. Cvengros	7,477,409,597.098	6,565,725,463.575	273,057,924.961	6,838,783,388.536
Raudline Etienne	7,477,409,597.098	6,560,661,215.330	278,122,173.206	6,838,783,388.536
William F. McCalpin	7,477,409,597.098	6,572,385,644.563	266,397,743.973	6,838,783,388.536
Gary A. Poliner	7,477,409,597.098	6,576,207,507.849	262,575,880.687	6,838,783,388.536
James T. Rothe	7,477,409,597.098	6,559,365,918.898	279,417,469.638	6,838,783,388.536
William D. Stewart	7,477,409,597.098	6,558,013,404.302	280,769,984.235	6,838,783,388.536
Linda S. Wolf	7,477,409,597.098	6,565,131,501.186	273,651,887.350	6,838,783,388.536

	Votes (%)			Percentage Voted (%)		
Trustees	*Affirmative*	*Withheld*	*Total*	*Affirmative*	*Withheld*	*Total*
Alan A. Brown	87.953	3.507	91.459	96.166	3.834	100.000
William D. Cvengros	87.807	3.652	91.459	96.007	3.993	100.000
Raudline Etienne	87.740	3.719	91.459	95.933	4.067	100.000
William F. McCalpin	87.897	3.563	91.459	96.105	3.895	100.000
Gary A. Poliner	87.948	3.512	91.459	96.160	3.840	100.000
James T. Rothe	87.722	3.737	91.459	95.914	4.086	100.000
William D. Stewart	87.704	3.755	91.459	95.894	4.106	100.000
Linda S. Wolf	87.800	3.660	91.459	95.999	4.001	100.000

Janus Aspen Forty Portfolio
Notes

Janus provides access to a wide range of investment disciplines.

Alternative
Janus alternative funds seek to deliver strong risk-adjusted returns over a full market cycle with lower correlation to equity markets than traditional investments.

Asset Allocation
Janus' asset allocation funds utilize our fundamental, bottom-up research to balance risk over the long term. From fund options that meet investors' risk tolerance and objectives to a method that incorporates non-traditional investment choices to seek non-correlated sources of risk and return, Janus' asset allocation funds aim to allocate risk more effectively.

Fixed Income
Janus fixed income funds attempt to provide less risk relative to equities while seeking to deliver a competitive total return through high current income and appreciation. Janus money market funds seek capital preservation and liquidity with current income as a secondary objective.

Global & International
Janus global and international funds seek to leverage Janus' research capabilities by taking advantage of inefficiencies in foreign markets, where accurate information and analytical insight are often at a premium.

Growth & Core
Janus growth funds focus on companies believed to be the leaders in their respective industries, with solid management teams, expanding market share, margins and efficiencies. Janus core funds seek investments in more stable and predictable companies. Our core funds look for a strategic combination of steady growth and, for certain funds, some degree of income.

Mathematical
Our mathematical funds seek to outperform their respective indices while maintaining a risk profile equal to or lower than the index itself. Managed by INTECH® (a Janus subsidiary), these funds use a mathematical process in an attempt to build a more "efficient" portfolio than the index.

Value
Our value funds, managed by Perkins® (a Janus subsidiary), seek to identify companies with favorable reward to risk characteristics by conducting rigorous downside analysis before determining upside potential.

For more information about our funds, contact your investment professional or go to janus.com/variable-insurance.

JANUS®

Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.33JANUS (52687) or download the file from janus.com/variable-insurance. Read it carefully before you invest or send money.

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PIMCO

Semiannual Report
June 30, 2016

PIMCO Variable Insurance Trust

Share Classes

- Institutional
- Administrative
- Advisor

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

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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, 2016. The following pages contain specific details about the Portfolio's investment performance and a discussion of the factors that most affected performance over the reporting period.

Outside of the reporting period, PIMCO announced on July 19, 2016 that the firm's Managing Directors have selected Emmanuel (Manny) Roman as PIMCO's next Chief Executive Officer. PIMCO's current CEO Douglas Hodge will assume a new role as Managing Director and Senior Advisor when Mr. Roman joins PIMCO on November 1st.

The announcement of Mr. Roman as PIMCO's CEO is the culmination of a process undertaken by the firm to hire a senior executive who would add leadership and strategic insights combined with a deep appreciation of PIMCO's diversified global businesses, investment process and focus on superior investment performance and client-service. Mr. Roman's appointment has the full support of the firm's leadership including Mr. Hodge, PIMCO's President Jay Jacobs, the firm's Executive Committee and its Managing Directors. Mr. Roman has nearly 30 years of experience in the investment industry, with expertise in fixed income and proven executive leadership, most recently as CEO of Man Group PLC, one of the world's largest publicly-traded alternative asset managers and a leader in liquid, high-alpha investment strategies.

Highlights of the financial markets during the six-month fiscal reporting period include:

- The first segment of the reporting period through mid-February 2016 was marked by ongoing concerns over the global impact of a slowdown in the Chinese economy, which drove commodity prices and inflation expectations generally lower. By March, a recovery in the price of oil and expectations of lower interest rates for longer supported a rally in risk assets. The Bank of Japan ("BOJ") and the People's Bank of China, for example, indicated their intent for further policy easing, with the BOJ resorting to a negative interest rate policy in February 2016. The European Central Bank ("ECB") also resorted to unconventional monetary policy with additional easing measures and an expansion of its quantitative easing program by shifting its focus toward domestic credit, pushing government sovereign yields into negative territory. In June 2016, the ECB began purchasing corporate bonds to help invigorate economic growth and stimulate inflation in the region.
- In the U.S., concerns regarding the global impact of tightening financial conditions and renewed U.S. dollar strength kept the Federal Reserve ("Fed") on hold at their June 2016 meeting, after having slightly raised interest rates at their December 2015 meeting. In addition, the U.S. dollar appreciated against most European and emerging market currencies, while falling against the Japanese yen. The U.S. interest rate yield curve flattened as the ten-year U.S. Treasury yield rallied to all-time lows and short-term interest rates rose with the initial Fed rate hike in December 2015. Revised first quarter 2016 U.S. gross domestic product ("GDP") data released in late June was marginally stronger as retail sales, housing and consumer sentiment data indicated an improving economy.
- Market movements and news headlines at the end of the reporting period were dominated by the unexpected outcome of the U.K. referendum on June 23, 2016. Initial investor reaction to the Brexit vote was largely "risk-off" as various assets re-priced to the surprise outcome, with U.S. Treasuries, the Japanese yen and gold headlining a safe-haven rally. However, aside from the Pound Sterling and European and Japanese equities, most asset classes generally recovered in the ensuing week as investors reassessed the impact of the Brexit vote on global growth expectations.
- U.S. Treasuries, as represented by the Barclays U.S. Treasury Index, returned 5.37% for the reporting period. Yields declined across the majority of the U.S. Treasury yield curve as a more dovish tone from the Fed coupled with the surprise result of the U.K. referendum pushed expectations for policy normalization further into the future. The benchmark ten-year U.S. Treasury note yielded 1.49% at the end of the reporting period, down from 2.27% on December 31, 2015. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 5.31% for the reporting period.
- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, returned 6.24% over the reporting period. U.S. real interest rates followed nominal yields sharply lower as concerns surrounding China's growth prospects early in the reporting period coupled with uncertainty over the U.K.

referendum created a strong flight-to-quality bid and more tempered expectations for near-term Fed rate hikes. Despite posting positive absolute returns, U.S. TIPS were outpaced by comparable nominal U.S. Treasuries as market-based inflation expectations ended the period lower. U.S. breakeven inflation rates were pressured lower by low headline inflation data and outsized demand for safe-haven nominal U.S. Treasuries.

- Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, returned 13.25% over the reporting period. Prices on broad commodities rebounded, led higher primarily by energy and precious metal prices. Crude oil prices rose markedly after reaching multi-year lows in January 2016, driven higher by strong demand and production outages. Within precious metals, gold prices were the beneficiary of strong safe-haven demand around risk-off events, particularly in June 2016 following the U.K.'s historic vote to leave the European Union. Agriculture commodity prices also advanced over the period, led by sugar prices which rallied on Brazilian rainfall, Indian import demand as well as strength in the Brazilian real.
- Agency mortgage-backed securities ("MBS"), as represented by the Barclays U.S. MBS Fixed Rate Index, returned 3.11% over the reporting period and underperformed like-duration U.S. Treasuries amid headwinds from heavy supply and refinancing concerns. Non-Agency MBS prices were higher and spreads tightened, as the sector continued to benefit from favorable technicals and stable fundamentals. Positive representation and warranty settlement developments also benefited the sector.
- U.S. investment grade credit, as represented by the Barclays U.S. Credit Index, returned 7.54% over the reporting period, as falling credit yields and a commodity-fueled rally drove returns over the reporting period. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index (USD Hedged), returned 8.02% over the reporting period. Strong performance from commodity sectors and risk-on sentiment drove returns, as asset sales and equity issuance strengthened balance sheets. Meanwhile, high yield bond mutual funds saw strong inflows, as investors continued to seek higher-yielding instruments.
- Emerging market ("EM") external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 10.90% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), returned 14.02% over the reporting period. The slowdown in China continued apace, though policymakers have used expanded credit availability and a gradual depreciation of the Chinese currency to soften the landing. Higher commodity prices and improving terms of trade helped EM currencies broadly gain during the reporting period.
- Global equity markets showed mixed performance amid a period marked by economic uncertainty, increased volatility and concerns around the U.K. referendum. U.S. equities, as represented by the S&P 500 Index, returned 3.84% over the reporting period. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 6.41% over the same period. In contrast, developed market equities outside the U.S., as represented by the MSCI EAFE Net Dividend Index (USD Unhedged), declined 4.42% over the reporting period.

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 and investment solution needs.

Sincerely,

Brent R. Harris

Brent R. Harris
Chairman of the Board
PIMCO Variable Insurance Trust

August 22, 2016

Past performance is no guarantee of future results. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. It is not possible to invest directly in an unmanaged index.

Important Information About the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

PIMCO Variable Insurance Trust (the "Trust") is an open-end management investment company currently consisting of twenty separate investment portfolios, including the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (the "Portfolio"). The Portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies ("Variable Contracts"). Individuals may not purchase shares of the Portfolio directly. Shares of the Portfolio also may be sold to qualified pension and retirement plans outside of the separate account context.

We believe that bond funds have an important role to play in a well-diversified investment portfolio. It is important to note, however, that in an environment where interest rates may trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities and other instruments held by the Portfolio are likely to decrease in value. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). In addition, changes in interest rates can be sudden and unpredictable, and there is no guarantee that Fund management will anticipate such movement accurately. The Portfolio may lose money as a result of movements in interest rates.

As of the date of this report, interest rates in the U.S. and many parts of the world, including certain European countries, are 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 and has begun, and may continue, to raise interest rates. Further, while bond markets have steadily grown over the past three decades, dealer inventories of corporate bonds are near historic lows in relation to market size. As a result, there has been a significant reduction in the ability of dealers to "make markets."

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. All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets or negatively impact the Portfolio's performance or cause the Portfolio to incur losses. As a result, the Portfolio may experience increased shareholder redemptions which, among other things, could further reduce the net assets of the Portfolio.

The Portfolio may be subject to various risks as described in the Portfolio's prospectus. 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 and other 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 an asset, instrument, or component of the index underlying a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility for 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 (non-U.S.) 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 markets for lower-rated bonds. 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-related and asset-backed securities represent interests in "pools" of mortgages or other assets such as consumer loans or receivables. As a general matter, mortgage-related 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-related 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 Cumulative Returns chart reflects only Administrative Class performance. Performance for Institutional Class, Class M and Advisor Class shares, if applicable, may be higher or lower based on each class's expense ratios. The Portfolio's total annual operating expense ratios on the Portfolio Summary page are as of the currently effective prospectus, as supplemented to date. The Portfolio measures its performance against a broad-based securities market index ("benchmark index"). The benchmark index does not take into account fees, expenses, or taxes. The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

The following table discloses the inception dates of the Portfolio and its respective share classes along with the Portfolio's diversification status as of period end:

Portfolio Name	Portfolio Inception	Institutional Class	Class M	Administrative Class	Advisor Class	Diversification Status
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	02/16/99	04/10/00	—	02/16/99	04/30/14	Non-diversified

An investment in the Portfolio is not a bank deposit and is not guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. It is possible to lose money on investments in the Portfolio.

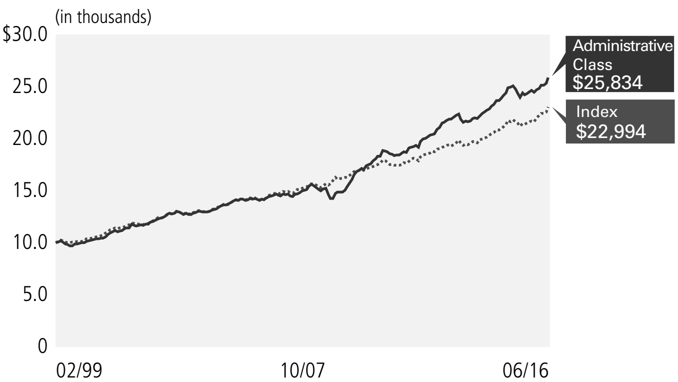
The Trustees are responsible generally for overseeing the management of the Trust. The Trustees authorize the Trust to enter into service agreements with the Adviser, the Distributor, the Administrator and other service providers in order to provide, and in some cases authorize service providers to procure through other parties, necessary or desirable services on behalf of the Trust and the Portfolio. Shareholders are not parties to or third-party beneficiaries of such service agreements. Neither this Portfolio's prospectus nor summary prospectus, the Trust's Statement of Additional Information ("SAI"), any contracts filed as exhibits to the Trust's registration statement, nor any other communications, disclosure documents or regulatory filings (including this report) from or on behalf of the Trust or the Portfolio creates a contract between or among any shareholder of the Portfolio, on the one hand, and the Trust, the Portfolio, a service provider to the Trust or the Portfolio, and/or the Trustees or officers of the Trust, on the other hand. The Trustees (or the Trust and its officers, service providers or other delegates acting under authority of the Trustees) may amend the most recent prospectus or use a new prospectus, summary prospectus or SAI with respect to the Portfolio or the Trust, and/or amend, file and/or issue any other communications, disclosure documents or regulatory filings, and may amend or enter into any contracts to which the Trust or the Portfolio is a party, and interpret the investment objective(s), policies, restrictions and contractual provisions applicable to the Portfolio, without shareholder input or approval, except in circumstances in which shareholder approval is specifically required by law (such as changes to fundamental investment policies) or where a shareholder approval requirement is specifically disclosed in the Trust's then-current prospectus or SAI.

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.

Cumulative Returns Through June 30, 2016



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown†

United States	26.5%
Short-Term Instruments‡	21.0%
Denmark	11.1%
United Kingdom	7.7%
Italy	4.6%
Other	29.1%

† % of Investments, at value as of 06/30/2016. Financial derivative instruments, if any, are excluded.

‡ Includes Central Funds used for Cash Management Purposes.

Average Annual Total Return for the period ended June 30, 2016

	6 Months*	1 Year	5 Years	10 Years	Inception**
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Institutional Class	5.70%	7.91%	6.88%	6.37%	6.07%
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class	5.62%	7.75%	6.72%	6.22%	5.60%
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Advisor Class	5.57%	7.65%	—	—	6.02%
Barclays Global Aggregate ex-USD (USD Hedged) Index****±	6.33%	8.54%	5.46%	4.96%	4.92%***
JPMorgan GBI Global ex-US Index Hedged in USD	7.72%	10.66%	5.92%	5.29%	5.14%***

All Portfolio returns are net of fees and expenses.

* Cumulative return.

** For class inception dates please refer to the Important Information.

*** Average annual total return since 02/28/1999.

**** Prior to December 1, 2015, the Portfolio's broad-based securities market index was JPMorgan GBI FX NY Index Unhedged in USD.

± Barclays Global Aggregate ex-USD (USD Hedged) Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the US Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities.

It is not possible to invest directly in an unmanaged index.

Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. The Portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in Variable Contracts, which will reduce returns. For performance current to the most recent month-end, visit http://pvit.pimco-funds.com.

The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented to date, is 0.75% for Institutional Class shares, 0.90% for Administrative Class shares, and 1.00% for Advisor Class shares.

Investment Objective and Strategy Overview

» 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

Following are key factors impacting the Portfolio's performance during the reporting period:

» Exposure to the Russian ruble added to relative performance, as the currency appreciated against the U.S. dollar.

» Investment grade corporate exposure added to relative performance, as total returns were positive.

» An overweight to duration in France added to relative performance, as French yields decreased.

» An underweight to Belgium rates detracted from relative performance, as Belgian yields declined.

» An underweight to duration in Japan detracted from relative performance, as Japanese yields declined.

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 (if applicable), 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 from January 1, 2016 to June 30, 2016 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 rows, 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 appropriate column for your share class, in the column 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.

Expense ratios may vary period to period because of various factors, such as an increase in expenses that are not covered by the management fees such as fees and expenses of the independent trustees and their counsel, extraordinary expenses and interest expense.

	Actual			Hypothetical (5% return before expenses)			
	Beginning Account Value (01/01/16)	Ending Account Value (06/30/16)	Expenses Paid During Period*	Beginning Account Value (01/01/16)	Ending Account Value (06/30/16)	Expenses Paid During Period*	Net Annualized Expense Ratio**
Institutional	$ 1,000.00	$ 1,057.00	$ 3.77	$ 1,000.00	$ 1,020.79	$ 3.71	0.75%
Administrative Class	1,000.00	1,056.20	4.53	1,000.00	1,020.05	4.45	0.90
Advisor Class	1,000.00	1,055.70	5.03	1,000.00	1,019.56	4.94	1.00

* 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 179/366 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.

** Net Annualized Expense Ratio is reflective of any applicable contractual fee waivers and/or expense reimbursements or voluntary fee waivers. Details regarding fee waivers can be found in Note 8 in the Notes to Financial Statements.

Financial Highlights PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Selected Per Share Data for the Year or Period Ended:	Net Asset Value Beginning of Year or Period	Net Investment Income[(a)]	Net Realized/ Unrealized Gain (Loss)	Total from Investment Operations	Dividends from Net Investment Income	Distributions from Net Realized Capital Gains	Tax Basis Return of Capital	Total Distributions[(b)]
Institutional Class								
01/01/2016 - 06/30/2016+	$ 10.54	$ 0.11	$ 0.49	$ 0.60	$ (0.06)	$ 0.00	$ 0.00	$ (0.06)
12/31/2015	10.90	0.13	(0.09)	0.04	(0.35)	(0.05)	0.00	(0.40)
12/31/2014	10.05	0.21	0.92	1.13	(0.21)	(0.07)	0.00	(0.28)
12/31/2013	10.80	0.23	(0.16)	0.07	(0.22)	(0.60)	0.00	(0.82)
12/31/2012	10.33	0.27	0.85	1.12	(0.26)	(0.39)	0.00	(0.65)
12/31/2011	9.98	0.25	0.43	0.68	(0.23)	(0.10)	0.00	(0.33)
Administrative Class								
01/01/2016 - 06/30/2016+	10.54	0.10	0.49	0.59	(0.05)	0.00	0.00	(0.05)
12/31/2015	10.90	0.10	(0.07)	0.03	(0.34)	(0.05)	0.00	(0.39)
12/31/2014	10.05	0.18	0.93	1.11	(0.19)	(0.07)	0.00	(0.26)
12/31/2013	10.80	0.22	(0.17)	0.05	(0.20)	(0.60)	0.00	(0.80)
12/31/2012	10.33	0.26	0.84	1.10	(0.24)	(0.39)	0.00	(0.63)
12/31/2011	9.98	0.23	0.43	0.66	(0.21)	(0.10)	0.00	(0.31)
Advisor Class								
01/01/2016 - 06/30/2016+	10.54	0.10	0.49	0.59	(0.05)	0.00	0.00	(0.05)
12/31/2015	10.90	0.10	(0.08)	0.02	(0.33)	(0.05)	0.00	(0.38)
4/30//2014 - 12/31/2014	10.34	0.13	0.62	0.75	(0.12)	(0.07)	0.00	(0.19)

\+ Unaudited

* Annualized

[(a)] Per share amounts based on average number of shares outstanding during the year or period.

[(b)] The tax characterization of distributions is determined in accordance with federal income tax regulations. The actual tax characterization of distributions paid are determined at the end of the fiscal year. See Note 2(d) in the Notes to Financial Statements for more information.

Net Asset Value End of Year or Period	Total Return	Net Assets End of Year or Period (000s)	Ratio of Expenses to Average Net Assets	Ratio of Expenses to Average Net Assets Excluding Interest Expense	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
$ 11.08	5.70%	$ 3,912	0.75%*	0.75%*	2.16%*	136%
10.54	0.44	3,001	0.75	0.75	1.15	302
10.90	11.32	879	0.76	0.75	1.99	176
10.05	0.65	22	0.77	0.75	2.18	127
10.80	11.00	21	0.79	0.75	2.54	356
10.33	6.91	19	0.76	0.75	2.45	218
11.08	5.62	66,476	0.90*	0.90*	1.86*	136
10.54	0.29	73,278	0.90	0.90	0.90	302
10.90	11.16	89,343	0.91	0.90	1.73	176
10.05	0.50	66,176	0.92	0.90	2.03	127
10.80	10.85	78,497	0.94	0.90	2.40	356
10.33	6.76	78,493	0.91	0.90	2.30	218
11.08	5.57	293,208	1.00*	1.00*	1.91*	136
10.54	0.19	221,379	1.00	1.00	0.90	302
10.90	7.31	69,716	1.01*	1.00*	1.79*	176

Statement of Assets and Liabilities PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Unaudited)

(Amounts in thousands, except per share amounts)	June 30, 2016
Assets:	
Investments, at value	
Investments in securities*	$ 360,516
Investments in Affiliates	23,167
Financial Derivative Instruments	
Exchange-traded or centrally cleared	747
Over the counter	7,996
Cash	4
Deposits with counterparty	3,379
Foreign currency, at value	2,480
Receivable for investments sold	62,889
Receivable for TBA investments sold	27,680
Receivable for Portfolio shares sold	646
Interest and/or dividends receivable	2,007
Dividends receivable from Affiliates	19
Total Assets	491,530
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for short sales	$ 2,479
Financial Derivative Instruments	
Exchange-traded or centrally cleared	485
Over the counter	7,668
Payable for investments purchased	65,932
Payable for investments in Affiliates purchased	19
Payable for TBA investments purchased	46,581
Deposits from counterparty	4,471
Payable for Portfolio shares redeemed	14
Accrued investment advisory fees	73
Accrued supervisory and administrative fees	145
Accrued distribution fees	59
Accrued servicing fees	8
Total Liabilities	127,934
Net Assets	$ 363,596
Net Assets Consist of:	
Paid in capital	$ 349,596
Undistributed net investment income	5,596
Accumulated undistributed net realized (loss)	(7,100)
Net unrealized appreciation	15,504
Net Assets	$ 363,596
Net Assets:	
Institutional Class	$ 3,912
Administrative Class	66,476
Advisor Class	293,208
Shares Issued and Outstanding:	
Institutional Class	353
Administrative Class	5,998
Advisor Class	26,456
Net Asset Value Per Share Outstanding:	
Institutional Class	$ 11.08
Administrative Class	11.08
Advisor Class	11.08
Cost of investments in securities	$ 355,399
Cost of investments in Affiliates	$ 23,165
Cost of foreign currency held	$ 2,482
Proceeds received on short sales	$ 2,449
Cost or premiums of financial derivative instruments, net	$ (158)
* Includes repurchase agreements of:	$ 3,318

Statement of Operations PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Unaudited)

(Amounts in thousands)	Six Months Ended June 30, 2016
Investment Income:	
Interest	$ 4,407
Dividends from Investments in Affiliates	156
Total Income	4,563
Expenses:	
Investment advisory fees	396
Supervisory and administrative fees	792
Servicing fees - Administrative Class	49
Distribution and/or servicing fees - Advisor Class	309
Trustee fees	1
Interest expense	7
Total Expenses	1,554
Net Investment Income	3,009
Net Realized (Loss):	
Investments in securities	(254)
Investments in Affiliates	(199)
Exchange-traded or centrally cleared financial derivative instruments	(2,262)
Over the counter financial derivative instruments	(3,204)
Foreign currency	(2,030)
Net Realized (Loss)	(7,949)
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	13,044
Investments in Affiliates	237
Exchange-traded or centrally cleared financial derivative instruments	8,156
Over the counter financial derivative instruments	(127)
Foreign currency assets and liabilities	1,760
Net Change in Unrealized Appreciation	23,070
Net Increase in Net Assets Resulting from Operations	$ 18,130

Statements of Changes in Net Assets PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands†)	Six Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2015
Increase in Net Assets from:		
Operations:		
Net investment income	$ 3,009	$ 2,103
Net realized gain (loss)	(7,949)	7,926
Net change in unrealized appreciation (depreciation)	23,070	(10,314)
Net Increase (Decrease) in Net Assets Resulting from Operations	18,130	(285)
Distributions to Shareholders:		
From net investment income		
Institutional Class	(19)	(87)
Administrative Class	(318)	(2,313)
Advisor Class	(1,103)	(6,116)
From net realized capital gains		
Institutional Class	0	(15)
Administrative Class	0	(367)
Advisor Class	0	(1,083)
Total Distributions(a)	(1,440)	(9,981)
Portfolio Share Transactions:		
Net increase resulting from Portfolio share transactions**	49,248	147,986
Total Increase in Net Assets	65,938	137,720
Net Assets:		
Beginning of period	297,658	159,938
End of period*	$ 363,596	$ 297,658
* Including undistributed net investment income of:	$ 5,596	$ 4,027

† A zero balance may reflect actual amounts rounding to less than one thousand.
** See Note 12 in the Notes to Financial Statements.
(a) The tax characterization of distributions is determined in accordance with federal income tax regulations. The actual tax characterization of distributions paid are determined at the end of the fiscal year. See Note 2(d) in the Notes to Financial Statements for more information.

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 99.1%			
AUSTRALIA 0.2%			
SOVEREIGN ISSUES 0.2%			
New South Wales Treasury Corp.			
2.750% due 11/20/2025 (e)	AUD	124	$ 111
Queensland Treasury Corp.			
4.250% due 07/21/2023		600	506
Total Australia (Cost $701)			**617**
BRAZIL 0.7%			
CORPORATE BONDS & NOTES 0.7%			
Banco Santander Brasil S.A.			
4.625% due 02/13/2017	$	400	406
Petrobras Global Finance BV			
3.536% due 03/17/2020		500	443
8.375% due 12/10/2018		300	333
8.375% due 05/23/2021		1,300	1,345
Total Brazil (Cost $2,424)			**2,527**
CANADA 4.6%			
CORPORATE BONDS & NOTES 1.0%			
Bank of Nova Scotia			
1.875% due 04/26/2021	$	1,200	1,210
Royal Bank of Canada			
2.200% due 09/23/2019		400	411
2.300% due 03/22/2021		800	823
Toronto-Dominion Bank			
1.094% due 07/02/2019		500	498
2.250% due 03/15/2021		800	822
			3,764
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.3%			
Canadian Mortgage Pools			
1.041% due 06/01/2020	CAD	266	204
1.241% due 07/01/2020		732	564
1.241% due 08/01/2020		284	219
			987
SOVEREIGN ISSUES 3.3%			
Canada Government International Bond			
1.500% due 12/01/2044 (e)		444	455
Province of Alberta			
1.250% due 06/01/2020		1,100	855
2.350% due 06/01/2025		1,100	879
Province of British Columbia			
4.300% due 06/18/2042		100	101
Province of Ontario			
2.600% due 06/02/2025		9,700	7,983
3.450% due 06/02/2045		100	88
3.500% due 06/02/2024		600	527
6.200% due 06/02/2031		100	113
Province of Quebec			
3.000% due 09/01/2023		1,100	933
			11,934
Total Canada (Cost $15,879)			**16,685**
CAYMAN ISLANDS 0.4%			
ASSET-BACKED SECURITIES 0.4%			
Atrium CDO Corp.			
1.421% due 11/16/2022	$	189	189
Gallatin CLO Ltd.			
1.898% due 07/15/2023		166	165
OHA Credit Partners Ltd.			
1.846% due 05/15/2023		576	575

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Symphony CLO LP			
1.729% due 01/09/2023	$	478	$ 476
Total Cayman Islands (Cost $1,409)			**1,405**
DENMARK 11.7%			
CORPORATE BONDS & NOTES 11.7%			
Nordea Kredit Realkreditaktieselskab			
2.500% due 10/01/2037	DKK	1,800	277
3.000% due 10/01/2047		2,400	368
Nykredit Realkredit A/S			
1.000% due 07/01/2016		21,900	3,266
1.000% due 10/01/2016		43,900	6,579
2.000% due 04/01/2017		54,200	8,225
2.000% due 10/01/2037		2,200	330
2.500% due 10/01/2037		8,200	1,261
2.500% due 10/01/2047		24,539	3,694
3.000% due 10/01/2047		19,113	2,936
Realkredit Danmark A/S			
1.000% due 01/01/2017		5,900	887
1.000% due 04/01/2017		5,700	859
2.000% due 01/01/2017		22,200	3,351
2.000% due 04/01/2017		40,000	6,073
2.000% due 10/01/2037		4,380	657
2.500% due 10/01/2037		12,582	1,938
2.500% due 10/01/2047		4,773	718
3.000% due 10/01/2047		8,142	1,247
Total Denmark (Cost $42,724)			**42,666**
FRANCE 3.1%			
CORPORATE BONDS & NOTES 0.5%			
Credit Agricole S.A.			
1.201% due 06/12/2017	$	400	400
8.125% due 09/19/2033		200	215
Dexia Credit Local S.A.			
1.242% due 03/23/2018		600	601
1.875% due 03/28/2019		400	405
1.875% due 01/29/2020		250	252
			1,873
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.1%			
Infinity SoPRANo			
0.018% due 11/05/2019	EUR	462	495
SOVEREIGN ISSUES 2.5%			
France Government International Bond			
0.250% due 11/25/2020		250	285
1.000% due 11/25/2018		450	518
1.000% due 11/25/2025		1,100	1,319
1.750% due 11/25/2024		900	1,145
2.500% due 05/25/2030		600	853
3.250% due 05/25/2045		2,000	3,524
4.000% due 10/25/2038		200	370
4.500% due 04/25/2041		600	1,218
			9,232
Total France (Cost $10,844)			**11,600**
GERMANY 1.2%			
CORPORATE BONDS & NOTES 0.9%			
Landwirtschaftliche Rentenbank			
4.250% due 01/24/2023	AUD	500	412
4.750% due 03/12/2019	NZD	1,200	904
5.500% due 03/29/2022	AUD	1,600	1,390
Symrise AG			
4.125% due 10/25/2017	EUR	500	582
			3,288

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SOVEREIGN ISSUES 0.3%			
Republic of Germany			
4.000% due 01/04/2037	EUR	100	$ 196
4.250% due 07/04/2039		500	1,051
			1,247
Total Germany (Cost $4,545)			**4,535**
GREECE 0.5%			
CORPORATE BONDS & NOTES 0.2%			
Hellenic Railways Organization S.A.			
4.028% due 03/17/2017	EUR	200	213
5.014% due 12/27/2017		300	315
			528
SOVEREIGN ISSUES 0.3%			
Republic of Greece Government International Bond			
3.800% due 08/08/2017	JPY	80,000	733
4.500% due 07/03/2017		30,000	275
5.000% due 08/22/2016		25,000	241
			1,249
Total Greece (Cost $1,533)			**1,777**
GUERNSEY, CHANNEL ISLANDS 0.2%			
CORPORATE BONDS & NOTES 0.2%			
Credit Suisse Group Funding Guernsey Ltd.			
3.800% due 06/09/2023	$	800	800
Total Guernsey, Channel Islands (Cost $798)			**800**
IRELAND 1.8%			
ASSET-BACKED SECURITIES 0.2%			
CELF Loan Partners PLC			
0.119% due 05/03/2023	GBP	628	817
CORPORATE BONDS & NOTES 1.1%			
Depfa ACS Bank			
3.875% due 11/14/2016	EUR	3,500	3,940
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.2%			
Deco Series			
1.200% due 04/27/2027		491	539
German Residential Funding Ltd.			
0.892% due 08/27/2024		180	202
			741
SOVEREIGN ISSUES 0.3%			
Ireland Government International Bond			
5.400% due 03/13/2025		700	1,102
Total Ireland (Cost $6,866)			**6,600**
ITALY 4.9%			
CORPORATE BONDS & NOTES 0.7%			
Banca Carige SpA			
3.875% due 10/24/2018	EUR	600	713
Banca Monte dei Paschi di Siena SpA			
5.000% due 02/09/2056		100	119
Intesa Sanpaolo SpA			
5.710% due 01/15/2026	$	900	855
Telecom Italia SpA			
6.375% due 06/24/2019	GBP	600	881
			2,568

		PRINCIPAL AMOUNT (000S)		MARKET VALUE (000S)
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.3%				
Casa D'este Finance SRL				
0.087% due 09/15/2040	EUR	123	$	135
Claris Finance SRL				
0.208% due 10/31/2060		322		356
Creso SRL				
0.419% due 12/30/2060		521		573
Giovecca Mortgages SRL				
0.351% due 04/23/2048		69		76
				1,140
SOVEREIGN ISSUES 3.9%				
Italy Buoni Poliennali Del Tesoro				
0.450% due 06/01/2021		2,800		3,122
1.600% due 06/01/2026		1,500		1,706
2.700% due 03/01/2047		1,300		1,553
3.250% due 09/01/2046		1,200		1,602
4.000% due 02/01/2037		2,700		3,978
4.500% due 03/01/2024		500		699
5.000% due 03/01/2025		300		439
Italy Government International Bond				
6.000% due 08/04/2028	GBP	600		1,014
				14,113
Total Italy (Cost $18,029)				**17,821**
JAPAN 4.8%				
CORPORATE BONDS & NOTES 0.5%				
Bank of Tokyo-Mitsubishi UFJ Ltd.				
1.700% due 03/05/2018	$	200		201
Sumitomo Mitsui Financial Group, Inc.				
2.337% due 03/09/2021		1,500		1,532
				1,733
SOVEREIGN ISSUES 4.3%				
Japan Finance Organization for Municipalities				
2.125% due 04/13/2021		1,300		1,322
Japan Government International Bond				
0.800% due 03/20/2046	JPY	1,180,000		13,656
Tokyo Metropolitan Government				
2.000% due 05/17/2021	$	700		710
				15,688
Total Japan (Cost $16,684)				**17,421**
JERSEY, CHANNEL ISLANDS 0.6%				
CORPORATE BONDS & NOTES 0.6%				
AA Bond Co. Ltd.				
4.249% due 07/31/2043	GBP	700		966
UBS Group Funding Jersey Ltd.				
3.000% due 04/15/2021	$	1,000		1,021
Total Jersey, Channel Islands (Cost $2,057)				**1,987**
LUXEMBOURG 0.7%				
CORPORATE BONDS & NOTES 0.7%				
Commerzbank Finance & Covered Bond S.A.				
4.250% due 06/04/2018	EUR	1,650		1,970
Wind Acquisition Finance S.A.				
7.000% due 04/23/2021		600		652
Total Luxembourg (Cost $2,556)				**2,622**
MEXICO 0.5%				
SOVEREIGN ISSUES 0.5%				
Mexico Government International Bond				
6.500% due 06/09/2022	MXN	30,000		1,718
Total Mexico (Cost $1,876)				**1,718**

		PRINCIPAL AMOUNT (000S)		MARKET VALUE (000S)
NETHERLANDS 2.0%				
ASSET-BACKED SECURITIES 0.4%				
Cadogan Square CLO BV				
0.177% due 01/17/2023	EUR	72	$	79
Chapel BV				
0.109% due 07/17/2066		191		196
Highlander Euro CDO BV				
0.069% due 05/01/2023		190		207
0.315% due 09/06/2022		346		383
Jubilee CDO BV				
0.169% due 09/20/2022		161		178
Panther CDO BV				
0.148% due 10/15/2084		115		126
Wood Street CLO BV				
0.072% due 08/27/2022		189		208
				1,377
CORPORATE BONDS & NOTES 1.6%				
Bank Nederlandse Gemeenten NV				
4.550% due 02/15/2019	CAD	1,800		1,511
Cooperatieve Rabobank UA				
8.375% due 07/26/2016 (f)	$	2,000		2,011
8.400% due 06/29/2017 (f)		300		315
Fiat Chrysler Automobiles NV				
4.500% due 04/15/2020		400		405
ING Bank NV				
2.625% due 12/05/2022		1,500		1,572
Vonovia Finance BV				
5.000% due 10/02/2023		100		110
				5,924
Total Netherlands (Cost $7,306)				**7,301**
NORWAY 0.3%				
CORPORATE BONDS & NOTES 0.1%				
DNB Bank ASA				
2.375% due 06/02/2021	$	400		406
SOVEREIGN ISSUES 0.2%				
Kommunalbanken A/S				
1.020% due 03/27/2017		400		400
Norway Government International Bond				
3.750% due 05/25/2021	NOK	1,800		248
				648
Total Norway (Cost $1,067)				**1,054**
PORTUGAL 0.1%				
CORPORATE BONDS & NOTES 0.1%				
Banco Espirito Santo S.A.				
4.000% due 01/21/2019 ^	EUR	300		91
4.750% due 01/15/2018 ^		200		61
Novo Banco S.A.				
5.000% due 05/14/2019		100		81
5.000% due 05/21/2019		200		164
Total Portugal (Cost $931)				**397**
QATAR 0.1%				
SOVEREIGN ISSUES 0.1%				
Qatar Government International Bond				
4.625% due 06/02/2046	$	300		328
Total Qatar (Cost $293)				**328**

		PRINCIPAL AMOUNT (000S)		MARKET VALUE (000S)
SLOVENIA 3.4%				
SOVEREIGN ISSUES 3.4%				
Slovenia Government International Bond				
4.125% due 02/18/2019	$	3,200	$	3,372
4.700% due 11/01/2016	EUR	3,000		3,381
4.750% due 05/10/2018	$	400		421
5.250% due 02/18/2024		2,600		2,936
5.500% due 10/26/2022		800		910
5.850% due 05/10/2023		1,000		1,163
Total Slovenia (Cost $12,086)				**12,183**
SOUTH KOREA 0.2%				
CORPORATE BONDS & NOTES 0.2%				
Korea Hydro & Nuclear Power Co. Ltd.				
1.434% due 05/22/2017	$	700		700
Total South Korea (Cost $700)				**700**
SPAIN 2.4%				
CORPORATE BONDS & NOTES 0.1%				
Banco Santander S.A.				
6.250% due 09/11/2021 (f)	EUR	500		471
SOVEREIGN ISSUES 2.3%				
Autonomous Community of Catalonia				
4.300% due 11/15/2016		1,200		1,342
4.750% due 06/04/2018		300		340
4.950% due 02/11/2020		670		779
Autonomous Community of Madrid				
4.125% due 05/21/2024		600		811
4.300% due 09/15/2026		400		558
Autonomous Community of Valencia				
4.900% due 03/17/2020		600		764
Spain Government International Bond				
2.150% due 10/31/2025		400		482
2.900% due 10/31/2046		1,580		1,975
3.300% due 07/30/2016		900		1,001
5.150% due 10/31/2028		200		313
				8,365
Total Spain (Cost $8,666)				**8,836**
SUPRANATIONAL 0.5%				
CORPORATE BONDS & NOTES 0.5%				
European Investment Bank				
0.500% due 06/21/2023	AUD	500		317
0.500% due 08/10/2023		400		250
6.500% due 08/07/2019		800		670
Inter-American Development Bank				
1.875% due 03/15/2021	$	700		720
Total Supranational (Cost $1,964)				**1,957**
SWEDEN 1.6%				
CORPORATE BONDS & NOTES 1.6%				
Skandinaviska Enskilda Banken AB				
3.000% due 06/20/2018	SEK	1,500		189
Stadshypotek AB				
1.875% due 10/02/2019	$	2,700		2,741
2.500% due 09/18/2019	SEK	1,000		128
Svenska Handelsbanken AB				
2.450% due 03/30/2021	$	2,100		2,159
Swedbank AB				
2.200% due 03/04/2020		300		305
Swedbank Hypotek AB				
3.750% due 12/20/2017	SEK	1,100		138
Total Sweden (Cost $5,672)				**5,660**

See Accompanying Notes

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SWITZERLAND 0.6%		
CORPORATE BONDS & NOTES 0.5%		
Credit Suisse AG		
6.500% due 08/08/2023	$ 200	$ 210
UBS AG		
7.250% due 02/22/2022	1,100	1,130
7.625% due 08/17/2022	500	568
		1,908
SOVEREIGN ISSUES 0.1%		
Switzerland Government Bond		
3.500% due 04/08/2033	CHF 300	508
Total Switzerland (Cost $2,385)		**2,416**
UNITED KINGDOM 8.2%		
ASSET-BACKED SECURITIES 0.0%		
Motor PLC		
0.933% due 08/25/2021	$ 26	27
CORPORATE BONDS & NOTES 3.5%		
Barclays Bank PLC		
7.625% due 11/21/2022	2,100	2,264
7.750% due 04/10/2023	500	517
Barclays PLC		
3.650% due 03/16/2025	600	579
8.000% due 12/15/2020 (f)	EUR 700	728
HBOS PLC		
1.331% due 09/30/2016	$ 1,200	1,200
6.750% due 05/21/2018	1,100	1,183
HSBC Holdings PLC		
6.000% due 09/29/2023 (f)	EUR 1,500	1,605
Lloyds Bank PLC		
2.050% due 01/22/2019	$ 400	399
5.125% due 03/07/2025	GBP 700	1,185
Lloyds Banking Group PLC		
7.875% due 06/27/2029 (f)	300	379
Royal Bank of Scotland PLC		
9.500% due 03/16/2022	$ 400	417
Santander UK Group Holdings PLC		
2.875% due 10/16/2020	1,700	1,690
Tesco PLC		
6.125% due 02/24/2022	GBP 300	438
		12,584
NON-AGENCY MORTGAGE-BACKED SECURITIES 1.2%		
Business Mortgage Finance PLC		
0.971% due 02/15/2039	679	876
2.591% due 02/15/2041	400	514
Eurohome UK Mortgages PLC		
0.722% due 06/15/2044	131	158
Eurosail PLC		
0.735% due 06/10/2044	37	47
0.874% due 06/13/2045	143	189
1.524% due 06/13/2045	744	842
Mansard Mortgages PLC		
1.222% due 12/15/2049	233	290
Money Partners Securities PLC		
0.952% due 03/15/2040	26	32
Newgate Funding PLC		
0.748% due 12/01/2050	300	338
1.572% due 12/15/2050	338	399
RMAC Securities PLC		
0.724% due 06/12/2044	581	680
		4,365

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SOVEREIGN ISSUES 3.5%		
United Kingdom Gilt		
2.250% due 09/07/2023	GBP 500	$ 738
3.250% due 01/22/2044	3,800	6,726
3.500% due 01/22/2045	1,500	2,788
4.250% due 12/07/2040	1,200	2,410
		12,662
Total United Kingdom (Cost $30,620)		**29,638**
UNITED STATES 28.0%		
ASSET-BACKED SECURITIES 6.2%		
ACE Securities Corp. Home Equity Loan Trust		
0.593% due 07/25/2036	$ 1,731	1,174
Amortizing Residential Collateral Trust		
1.033% due 07/25/2032	1	1
1.153% due 10/25/2031	1	1
Amresco Residential Securities Corp. Mortgage Loan Trust		
0.923% due 06/25/2029	1	1
Argent Securities, Inc. Asset-Backed Pass-Through Certificates		
0.833% due 02/25/2036	755	521
Citigroup Mortgage Loan Trust, Inc.		
0.613% due 12/25/2036	791	509
0.713% due 03/25/2036	800	636
Countrywide Asset-Backed Certificates		
0.583% due 12/25/2036 ^	599	542
0.593% due 06/25/2035	523	379
0.593% due 01/25/2037	2,662	1,800
0.593% due 06/25/2037	671	481
0.593% due 06/25/2047 ^	543	391
0.593% due 06/25/2047	1,674	1,283
0.603% due 04/25/2047	652	534
0.743% due 07/25/2036	700	632
5.329% due 08/25/2035 ^	1,034	836
Countrywide Asset-Backed Certificates Trust		
1.796% due 04/25/2035	1,000	866
Credit Suisse First Boston Mortgage Securities Corp.		
1.073% due 01/25/2032	1	1
First Alliance Mortgage Loan Trust		
0.438% due 12/20/2027	1	1
GSAMP Trust		
0.883% due 11/25/2035 ^	1,392	819
HSI Asset Securitization Corp. Trust		
0.713% due 04/25/2037	998	582
IndyMac Home Equity Mortgage Loan Asset-Backed Trust		
0.693% due 04/25/2037	743	475
0.903% due 08/25/2035	39	39
Long Beach Mortgage Loan Trust		
1.013% due 10/25/2034	12	12
Morgan Stanley ABS Capital, Inc. Trust		
0.583% due 10/25/2036	207	161
Morgan Stanley Home Equity Loan Trust		
0.553% due 12/25/2036	1,221	682
0.683% due 04/25/2037	1,023	623
Morgan Stanley Mortgage Loan Trust		
5.919% due 09/25/2046 ^	197	98
Nomura Home Equity Loan, Inc. Home Equity Loan Trust		
0.743% due 03/25/2036	700	527
NovaStar Mortgage Funding Trust		
0.583% due 03/25/2037	951	613
Renaissance Home Equity Loan Trust		
3.003% due 12/25/2032	507	478
5.294% due 01/25/2037	664	350
5.675% due 06/25/2037 ^	1,072	500
5.731% due 11/25/2036	1,073	605
Residential Asset Mortgage Products Trust		
0.666% due 12/25/2035	599	457
0.676% due 12/25/2035	1,335	964

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Residential Asset Securities Corp. Trust		
0.703% due 11/25/2036	$ 2,142	$ 1,270
0.953% due 07/25/2032 ^	2	2
Saxon Asset Securities Trust		
2.203% due 12/25/2037	507	405
2.253% due 05/25/2031	647	562
Soundview Home Loan Trust		
0.603% due 06/25/2037	109	69
Structured Asset Investment Loan Trust		
0.583% due 07/25/2036	651	449
0.763% due 01/25/2036	1,600	1,212
		22,543
BANK LOAN OBLIGATIONS 0.2%		
Charter Communications Operating LLC		
3.500% due 01/24/2023	599	599
CORPORATE BONDS & NOTES 5.3%		
Ally Financial, Inc.		
2.750% due 01/30/2017	800	807
3.313% due 07/18/2016	100	100
3.600% due 05/21/2018	400	402
5.500% due 02/15/2017	300	305
American International Group, Inc.		
3.900% due 04/01/2026	1,100	1,137
Anheuser-Busch InBev Finance, Inc.		
3.300% due 02/01/2023	500	527
BA Covered Bond Issuer		
4.250% due 08/03/2017	EUR 200	229
Bank of America Corp.		
6.400% due 08/28/2017	$ 1,200	1,267
6.875% due 04/25/2018	800	874
Charter Communications Operating LLC		
4.464% due 07/23/2022	600	647
6.384% due 10/23/2035	600	713
Citigroup, Inc.		
1.587% due 06/07/2019	600	601
2.050% due 06/07/2019	200	202
2.650% due 10/26/2020	500	509
Citizens Bank N.A.		
2.550% due 05/13/2021	400	404
Ford Motor Credit Co. LLC		
3.200% due 01/15/2021	300	309
Goldman Sachs Group, Inc.		
1.798% due 04/23/2020	400	399
International Lease Finance Corp.		
6.750% due 09/01/2016	200	201
JPMorgan Chase & Co.		
2.550% due 10/29/2020	500	511
Kinder Morgan, Inc.		
5.000% due 02/15/2021	400	422
Lehman Brothers Holdings, Inc.		
6.875% due 05/02/2018 ^	200	14
Metropolitan Life Global Funding		
2.000% due 04/14/2020	300	304
MUFG Americas Holdings Corp.		
3.000% due 02/10/2025	700	713
Navient Corp.		
5.500% due 01/15/2019	1,100	1,109
Pricoa Global Funding		
2.200% due 06/03/2021	600	609
SABMiller Holdings, Inc.		
4.950% due 01/15/2042	800	931
Santander Holdings USA, Inc.		
2.115% due 11/24/2017	1,700	1,700
SLM Student Loan Trust		
1.124% due 03/15/2038	GBP 700	772
Springleaf Finance Corp.		
5.250% due 12/15/2019	$ 200	187
6.000% due 06/01/2020	400	376

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Sprint Communications, Inc.		
6.000% due 12/01/2016	$ 700	$ 706
8.375% due 08/15/2017	400	412
Zimmer Biomet Holdings, Inc.		
3.150% due 04/01/2022	900	924
		19,323
MUNICIPAL BONDS & NOTES 0.0%		
Pasadena Public Financing Authority, California Revenue Bonds, (BABs), Series 2010		
7.148% due 03/01/2043	100	147
NON-AGENCY MORTGAGE-BACKED SECURITIES 1.9%		
American Home Mortgage Investment Trust		
2.478% due 09/25/2045	50	49
Banc of America Alternative Loan Trust		
6.500% due 04/25/2036 ^	669	559
Banc of America Mortgage Trust		
2.894% due 02/25/2036 ^	96	86
Bear Stearns Adjustable Rate Mortgage Trust		
2.924% due 03/25/2035	4	4
2.932% due 08/25/2033	3	3
3.090% due 03/25/2035	44	45
Bear Stearns ALT-A Trust		
0.613% due 02/25/2034	62	55
2.902% due 09/25/2035	44	37
2.930% due 03/25/2036 ^	184	140
3.000% due 11/25/2035 ^	38	28
3.062% due 08/25/2036 ^	55	41
Bear Stearns Structured Products, Inc. Trust		
2.690% due 12/26/2046	42	31
Citigroup Mortgage Loan Trust, Inc.		
2.430% due 09/25/2035	8	8
Citigroup Mortgage Loan Trust, Inc. Mortgage Pass-Through Certificates		
2.603% due 09/25/2035 ^	498	429
Countrywide Alternative Loan Trust		
0.658% due 03/20/2046	83	62
0.733% due 02/25/2037	68	50
1.437% due 12/25/2035	76	59
4.653% due 11/25/2035	15	12
5.250% due 06/25/2035 ^	13	11
Countrywide Home Loan Mortgage Pass-Through Trust		
0.683% due 05/25/2035	35	29
1.093% due 03/25/2035	69	53
1.113% due 02/25/2035	8	7
2.674% due 11/25/2034	11	10
3.002% due 08/25/2034 ^	27	23
5.500% due 01/25/2035	520	526
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 ^	213	107
DBUBS Mortgage Trust		
0.384% due 11/10/2046 (a)	400	5
1.049% due 11/10/2046 (a)	377	9
Deutsche ALT-A Securities, Inc.		
1.203% due 10/25/2047	1,287	972
GSR Mortgage Loan Trust		
0.783% due 12/25/2034	84	75
2.943% due 01/25/2036 ^	88	82
3.043% due 04/25/2035	371	350
HarborView Mortgage Loan Trust		
2.887% due 05/19/2033	4	4
IndyMac Mortgage Loan Trust		
0.663% due 05/25/2046	679	557
0.693% due 07/25/2035	32	28
JPMorgan Mortgage Trust		
2.421% due 07/27/2037	135	126
2.815% due 02/25/2036 ^	51	45
Mellon Residential Funding Corp. Mortgage Pass-Through Trust		
0.882% due 12/15/2030	8	7
Merrill Lynch Mortgage Investors Trust		
2.228% due 10/25/2035	$ 13	$ 13
Morgan Stanley Bank of America Merrill Lynch Trust		
1.193% due 12/15/2048 (a)	1,017	54
Morgan Stanley Mortgage Loan Trust		
2.546% due 06/25/2036	59	57
Residential Accredit Loans, Inc. Trust		
0.603% due 02/25/2047	42	22
0.633% due 06/25/2046	343	140
0.663% due 04/25/2046	590	260
Structured Adjustable Rate Mortgage Loan Trust		
2.926% due 04/25/2034	8	8
Structured Asset Mortgage Investments Trust		
0.663% due 05/25/2036	16	12
0.673% due 05/25/2036	115	86
0.673% due 09/25/2047	172	133
0.683% due 05/25/2045	27	24
1.028% due 07/19/2034	3	3
1.108% due 09/19/2032	3	3
1.148% due 03/19/2034	6	6
1.937% due 08/25/2047 ^	49	40
TBW Mortgage-Backed Trust		
5.970% due 09/25/2036	189	23
Thornburg Mortgage Securities Trust		
2.489% due 06/25/2047 ^	54	48
5.750% due 06/25/2047	13	12
Wachovia Mortgage Loan Trust LLC		
2.805% due 10/20/2035 ^	188	171
WaMu Mortgage Pass-Through Certificates Trust		
0.763% due 01/25/2045	144	137
1.417% due 06/25/2046	57	53
1.437% due 02/25/2046	127	115
1.940% due 02/27/2034	6	6
2.248% due 12/25/2036 ^	295	252
2.482% due 03/25/2033	15	15
2.780% due 04/25/2035	72	72
2.798% due 03/25/2035	84	85
Washington Mutual Mortgage Pass-Through Certificates Trust		
1.377% due 07/25/2046 ^	32	20
Wells Fargo Mortgage-Backed Securities Trust		
2.830% due 03/25/2036 ^	261	248
2.865% due 03/25/2035	107	107
2.868% due 04/25/2036	9	9
3.046% due 07/25/2036 ^	71	68
		7,027

	SHARES	
PREFERRED SECURITIES 0.0%		
Navient Corp. CPI Linked Security		
2.903% due 01/16/2018	900	22

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
U.S. GOVERNMENT AGENCIES 6.9%		
Fannie Mae		
0.573% due 03/25/2034	$ 7	7
0.603% due 08/25/2034	4	4
0.803% due 09/25/2042	21	21
0.853% due 06/25/2036	47	47
0.883% due 11/25/2040	77	77
0.903% due 11/25/2040 - 01/25/2044	414	414
1.033% due 06/25/2041	294	296
1.576% due 10/01/2044	21	21
2.260% due 12/01/2034	7	7
2.557% due 05/25/2035	17	18
2.653% due 11/01/2034	44	47
3.500% due 11/01/2021	92	100
5.480% due 07/01/2018	200	206
6.000% due 07/25/2044	14	16
Fannie Mae, TBA		
3.000% due 07/01/2046 - 08/01/2046	18,400	19,028
Freddie Mac		
0.786% due 01/15/2038	$ 784	$ 781
0.942% due 12/15/2032	9	9
1.042% due 12/15/2037	27	27
1.610% due 10/25/2044	58	60
1.926% due 01/15/2038 (a)	784	52
2.500% due 03/01/2035	5	6
2.588% due 02/01/2029	4	4
2.850% due 04/01/2035	90	96
Ginnie Mae		
1.269% due 06/20/2066	1,800	1,791
1.750% due 04/20/2028 - 06/20/2030	2	3
2.000% due 04/20/2030 - 05/20/2030	2	2
NCUA Guaranteed Notes		
0.935% due 11/05/2020	1,103	1,103
1.006% due 12/08/2020	287	287
Tennessee Valley Authority		
6.250% due 12/15/2017	400	432
		24,962
U.S. TREASURY OBLIGATIONS 7.5%		
U.S. Treasury Bonds		
3.750% due 11/15/2043	1,700	2,245
5.250% due 02/15/2029 (k)	100	142
U.S. Treasury Inflation Protected Securities (e)		
0.125% due 01/15/2022	423	432
0.125% due 07/15/2022 (i)	1,977	2,023
0.125% due 01/15/2023 (i)	2,384	2,418
0.125% due 07/15/2024 (i)(k)	151	153
0.250% due 01/15/2025	9,393	9,547
0.375% due 07/15/2025 (i)	8,877	9,150
2.375% due 01/15/2025 (k)	317	379
U.S. Treasury Notes		
1.750% due 05/15/2023 (k)	100	103
2.000% due 02/15/2025 (k)	500	523
2.500% due 05/15/2024 (k)	100	109
		27,224
Total United States (Cost $102,026)		**101,847**
SHORT-TERM INSTRUMENTS 15.8%		
REPURCHASE AGREEMENTS (g) 0.9%		
		3,318
FRANCE TREASURY BILLS 0.1%		
(0.485)% due 07/27/2016 (d)	EUR 200	222
JAPAN TREASURY BILLS 14.0%		
0.059% due 08/10/2016 - 09/12/2016 (b)(c)	JPY 5,270,000	51,050
U.S. TREASURY BILLS 0.8%		
0.191% due 07/21/2016 - 12/08/2016 (b)(c)(k)	$ 2,829	2,828
Total Short-Term Instruments (Cost $52,758)		**57,418**
Total Investments in Securities (Cost $355,399)		**360,516**

	SHARES	MARKET VALUE (000S)
INVESTMENTS IN AFFILIATES 6.4%		
SHORT-TERM INSTRUMENTS 6.4%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 6.4%		
PIMCO Short-Term Floating NAV Portfolio III	2,343,876	$ 23,167
Total Short-Term Instruments (Cost $23,165)		**23,167**
Total Investments in Affiliates (Cost $23,165)		**23,167**
Total Investments 105.5% (Cost $378,564)		**$ 383,683**
Financial Derivative Instruments (h)(j) 0.2% (Cost or Premiums, net $(158))		**590**
Other Assets and Liabilities, net (5.7)%		**(20,677)**
Net Assets 100.0%		**$ 363,596**

NOTES TO SCHEDULE OF INVESTMENTS (AMOUNTS IN THOUSANDS*, EXCEPT NUMBER OF CONTRACTS):

***** **A zero balance may reflect actual amounts rounding to less than one thousand.**

^ **Security is in default.**

(a) **Interest only security.**

(b) **Coupon represents a weighted average yield to maturity.**

(c) **Zero coupon security.**

(d) **Coupon represents a yield to maturity.**

(e) **Principal amount of security is adjusted for inflation.**

(f) **Perpetual maturity; date shown, if applicable, represents next contractual call date.**

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(g) REPURCHASE AGREEMENTS:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral (Received)	Repurchase Agreements, at Value	Repurchase Agreement Proceeds to be Received [1]
SSB	0.010%	06/30/2016	07/01/2016	$ 3,318	U.S. Treasury Notes 1.000% due 05/15/2018	$ (3,388)	$ 3,318	$ 3,318
Total Repurchase Agreements						**$ (3,388)**	**$ 3,318**	**$ 3,318**

[1] Includes accrued interest.

SHORT SALES:

SHORT SALES ON U.S. TREASURY OBLIGATIONS

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales [2]
U.S. Treasury Bonds	4.500%	02/15/2036	$ 1,700	$ (2,449)	$ (2,479)
Total Short Sales				**$ (2,449)**	**$ (2,479)**

[2] Payable for short sales includes $30 of accrued interest.

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, 2016:

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Payable for Short Sales	Total Borrowings and Other Financing Transactions	Collateral (Received)/Pledged	Net Exposure [3]
Global/Master Repurchase Agreement							
SSB	$ 3,318	$ 0	$ 0	$ 0	$ 3,318	$ (3,388)	$ (70)
Master Securities Forward Transaction Agreement							
GSC	0	0	0	(2,479)	(2,479)	0	(2,479)
Total Borrowings and Other Financing Transactions	**$ 3,318**	**$ 0**	**$ 0**	**$ (2,479)**			

[3] Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from borrowings and other financing transactions can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

(h) FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED

PURCHASED OPTIONS:

OPTIONS ON EXCHANGE-TRADED FUTURES CONTRACTS

Description	Strike Price	Expiration Date	# of Contracts	Cost	Market Value
Put - CBOT U.S. Treasury 10-Year Note September Futures	$ 120.000	08/26/2016	356	$ 3	$ 0
Total Purchased Options				**$ 3**	**$ 0**

FUTURES CONTRACTS:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation/ (Depreciation)	Variation Margin	
					Asset	Liability
90-Day Eurodollar December Futures	Short	12/2017	217	$ (252)	$ 0	$ (11)
Australia Government 3-Year Note September Futures	Long	09/2016	20	3	0	(1)
Australia Government 10-Year Bond September Futures	Long	09/2016	16	19	2	(3)
Call Options Strike @ EUR 166.500 on Euro-Bund 10-Year Bond August Futures	Short	07/2016	67	(63)	4	(6)
Euro-Bobl September Futures	Long	09/2016	291	442	10	(10)
Euro-BONO September Futures September Futures	Long	09/2016	26	87	30	0
Euro-BTP Italy Government Bond September Futures	Long	09/2016	107	137	112	0
Euro-Bund 10-Year Bond September Futures	Short	09/2016	19	(67)	0	(5)
Euro-Buxl 30-Year Bond September Futures	Short	09/2016	6	(118)	0	(12)
Euro-OAT France Government 10-Year Bond September Futures	Long	09/2016	106	506	73	0
Euro-Schatz September Futures	Long	09/2016	84	24	0	(2)
Japan Government 10-Year Bond September Futures	Long	09/2016	24	168	21	(14)
Put Options Strike @ EUR 161.500 on Euro-Bund 10-Year Bond August Futures	Long	07/2016	67	(28)	0	(1)
U.S. Treasury 5-Year Note September Futures	Long	09/2016	296	661	23	0
U.S. Treasury 10-Year Note September Futures	Long	09/2016	455	1,543	0	(36)
U.S. Treasury Ultra Long-Term Bond September Futures	Short	09/2016	2	(24)	2	0
United Kingdom Long Gilt September Futures	Long	09/2016	33	263	21	0
Total Futures Contracts				**$ 3,301**	**$ 298**	**$ (101)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION [1]

Index/Tranches	Fixed (Pay) Rate	Maturity Date	Notional Amount [3]	Market Value [4]	Unrealized Appreciation	Variation Margin	
						Asset	Liability
iTraxx Europe Main 25 5-Year Index	(1.000)%	06/20/2021	EUR 1,700	$ (15)	$ 8	$ 0	$ (10)
iTraxx Europe Senior 25 5-Year Index	(1.000)	06/20/2021	6,200	39	48	0	(76)
				$ 24	$ 56	$ 0	$ (86)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION [2]

Index/Tranches	Fixed Receive Rate	Maturity Date	Notional Amount [3]	Market Value [4]	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
CDX.HY-26 5-Year Index	5.000%	06/20/2021	$ 1,900	$ 64	$ (5)	$ 9	$ 0
CDX.IG-25 5-Year Index	1.000	12/20/2020	28,800	237	13	49	0
CDX.IG-26 5-Year Index	1.000	06/20/2021	8,000	90	12	15	0
				$ 391	$ 20	$ 73	$ 0

(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, securities, or other deliverable obligations 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, securities, or other deliverable obligations 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	1-Year BRL-CDI	12.360%	01/04/2021	BRL	11,100	$ 43	$ 63	$ 6	$ 0
Pay	1-Year BRL-CDI	12.800	01/02/2025		1,800	19	18	2	0
Receive	3-Month CAD-Bank Bill	2.200	06/16/2026	CAD	3,700	(252)	(93)	0	(4)
Pay	3-Month CHF-LIBOR	0.050	03/16/2026	CHF	1,400	70	51	8	0
Pay	3-Month SEK-STIBOR	1.013	01/23/2025	SEK	600	3	3	1	0
Pay	3-Month SEK-STIBOR	1.023	01/23/2025		500	3	2	0	0
Pay	3-Month SEK-STIBOR	1.033	01/23/2025		500	3	3	0	0
Pay	3-Month SEK-STIBOR	1.036	01/23/2025		600	3	3	1	0
Receive	3-Month USD-LIBOR	1.500	12/16/2017	$	30,700	(367)	(153)	0	(6)
Receive	3-Month USD-LIBOR	1.250	06/15/2018		36,000	(368)	(161)	0	(10)
Receive	3-Month USD-LIBOR *	1.250	12/21/2018		4,300	(38)	1	0	(1)
Receive	3-Month USD-LIBOR	2.000	06/15/2021		24,100	(1,192)	(237)	2	0
Receive	3-Month USD-LIBOR	2.038	08/31/2022		200	(13)	(7)	0	0
Receive	3-Month USD-LIBOR	2.000	08/31/2022		3,800	(228)	(125)	2	0
Receive	3-Month USD-LIBOR	2.300	01/13/2023		3,300	(274)	(261)	2	0
Receive	3-Month USD-LIBOR	2.000	06/15/2023		9,500	(548)	(199)	7	0
Receive	3-Month USD-LIBOR *	1.750	12/21/2023		43,100	(1,453)	(519)	46	0
Receive	3-Month USD-LIBOR	2.250	06/15/2026		5,500	(451)	(200)	12	0
Receive	3-Month USD-LIBOR *	1.750	12/21/2026		40,500	(1,094)	(295)	94	0
Pay	3-Month USD-LIBOR	2.098	07/01/2041		2,000	4	0	0	0
Pay	3-Month USD-LIBOR	2.500	06/15/2046		1,000	152	90	0	(11)
Pay	3-Month USD-LIBOR	2.250	12/21/2046		900	(79)	0	0	0
Pay	3-Month ZAR-JIBAR *	9.000	09/21/2026	ZAR	15,000	43	38	8	0
Pay	6-Month EUR-EURIBOR *	0.000	09/21/2021	EUR	24,900	114	323	18	0
Pay	6-Month EUR-EURIBOR	1.000	11/30/2025		1,100	88	70	3	0
Pay	6-Month EUR-EURIBOR *	1.250	03/15/2047		1,400	180	57	9	0
Receive	6-Month GBP-LIBOR *	1.750	09/16/2018	GBP	5,600	(187)	(191)	0	(7)
Receive	6-Month GBP-LIBOR *	1.000	09/21/2018		2,800	(37)	(31)	0	(3)
Pay	6-Month GBP-LIBOR *	1.250	09/21/2021		21,100	853	786	28	0
Receive	6-Month GBP-LIBOR	1.700	03/10/2026		100	(9)	(9)	0	0
Receive	6-Month GBP-LIBOR *	1.500	09/21/2026		2,500	(155)	(152)	0	(5)
Pay	6-Month GBP-LIBOR *	1.750	03/15/2047		400	73	28	3	0
Pay	6-Month JPY-LIBOR	0.150	03/22/2018	JPY	3,280,000	162	150	0	(9)
Receive	6-Month JPY-LIBOR	0.500	09/17/2021		150,000	(52)	(31)	1	0
Pay	6-Month JPY-LIBOR	1.000	12/18/2025		670,000	664	385	0	(3)
Pay	6-Month JPY-LIBOR	0.300	03/18/2026		310,000	108	52	0	(1)
Pay	6-Month JPY-LIBOR	1.500	06/19/2033		2,340,000	5,528	5,240	0	(88)
Pay	6-Month JPY-LIBOR	1.250	06/17/2035		150,000	319	294	0	(9)
Receive	6-Month JPY-LIBOR	1.500	12/21/2045		550,000	(2,139)	(303)	123	0
Pay	28-Day MXN-TIIE	4.300	09/01/2016	MXN	61,600	0	(8)	0	(1)
Pay	28-Day MXN-TIIE	4.340	09/28/2017		34,300	(12)	(4)	0	(2)
Pay	28-Day MXN-TIIE	4.260	10/31/2017		57,800	(27)	(7)	0	(3)
Receive	28-Day MXN-TIIE	5.610	07/07/2021		18,400	(4)	10	0	(3)
						$ (547)	$ 4,681	$ 376	$ (166)
Total Swap Agreements						**$ (132)**	**$ 4,757**	**$ 449**	**$ (252)**

* This security has a forward starting effective date. See Note 2(a) in the Notes to Financial Statements for further information.

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, 2016:

(i) Securities with an aggregate market value of $3,480 and cash of $3,379 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of June 30, 2016. 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 [(1)]		
	Purchased Options	Futures	Swap Agreements	Total	Written Options	Futures	Swap Agreements	Total
Total Exchange-Traded or Centrally Cleared	$ 0	$ 298	$ 449	$ 747	$ 0	$ (101)	$ (384)	$ (485)

(1) Unsettled variation margin liability of $(132) for closed swap agreements is outstanding at period end.

(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
AZD	07/2016	$	5,381	AUD	7,278	$ 47	$ 0
	08/2016	AUD	7,278	$	5,376	0	(46)
	08/2016	CNH	13,449		2,037	23	0
BOA	07/2016	BRL	3,705		1,154	1	0
	07/2016	DKK	78,024		11,725	83	0
	07/2016	GBP	16,984		24,903	2,293	0
	07/2016	SEK	3,670		441	8	0
	07/2016	$	1,040	BRL	3,705	114	0
	07/2016		51,492	EUR	46,726	362	0
	07/2016		25,272	GBP	18,995	14	0
	08/2016	EUR	46,726	$	51,547	0	(360)
	08/2016	GBP	18,994		25,279	0	(14)
	09/2016	AUD	86		64	0	0
	09/2016	CNH	794		120	1	0
	09/2016	SGD	73		54	0	0
	09/2016	$	1,017	EUR	914	3	(4)
	10/2016	DKK	2,655	$	399	2	0
	01/2017	CNY	257		37	0	(1)
	01/2017	$	533	CNY	3,534	0	(9)
	04/2017	DKK	29,941	$	4,525	10	(3)
BPS	07/2016	BRL	13,647		3,998	0	(251)
	07/2016	$	4,199	BRL	13,647	52	(3)
	07/2016		237	NOK	2,010	3	0
	07/2016		218	SEK	1,850	1	0
	08/2016	NOK	2,010	$	237	0	(3)
	08/2016	SEK	1,850		218	0	(1)
	08/2016	$	3,693	BRL	12,684	221	0
	08/2016		946	MXN	17,916	30	0
	09/2016	AUD	215	$	161	1	0
	09/2016	CNH	7,530		1,139	13	0
	10/2016		4,273		648	10	0
	10/2016	$	648	CNY	4,277	0	(10)
BRC	07/2016	EUR	605	$	669	0	(2)
	07/2016	$	719	CHF	703	1	0
	08/2016	CHF	703	$	720	0	(1)
	08/2016	$	670	EUR	605	2	0
	09/2016	CNH	1,729	$	260	1	0
CBK	07/2016	CHF	216		225	4	0
	07/2016	DKK	10,244		1,545	17	0
	07/2016	EUR	11,667		13,270	323	0
	07/2016	GBP	2,996		4,293	304	0
	07/2016	$	589	CHF	566	0	(9)
	07/2016		4,788	EUR	4,217	0	(108)
	07/2016		2,927	GBP	2,061	0	(183)
	07/2016		220	SEK	1,820	0	(5)
	08/2016	GBP	670	$	904	11	0
	08/2016	HKD	251		32	0	0

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
	08/2016	SGD	7,750	$	5,618	$ 0	$ (132)
	08/2016	$	200	EUR	179	0	(1)
	08/2016		1,210	MXN	22,625	22	0
	09/2016	CNH	865	$	130	1	0
	09/2016	$	34	AUD	46	0	0
	01/2017		553	RUB	40,037	42	0
DUB	07/2016		1,668		109,018	33	0
	08/2016	SGD	764	$	559	0	(7)
GLM	07/2016	EUR	40,419		45,150	297	(2)
	07/2016	$	3,354	EUR	3,025	6	(3)
	08/2016	TWD	97,970	$	3,016	0	(31)
	08/2016	$	509	KRW	590,505	2	0
	08/2016		167	ZAR	2,556	5	0
	09/2016	EUR	674	$	757	7	0
	01/2017	DKK	22,644		3,462	59	0
HUS	07/2016	AUD	544		407	1	0
	07/2016	DKK	11,545		1,764	41	0
	09/2016	CNH	864		130	1	0
	09/2016	EUR	325		365	3	0
	09/2016	$	154	CNH	1,008	0	(3)
	09/2016		233	EUR	205	0	(5)
	09/2016		503	SGD	683	3	0
	10/2016	DKK	73,519	$	11,017	10	0
	01/2017	CNH	1,039		157	3	0
	01/2017	$	536	CNY	3,549	0	(9)
	02/2017		552	RUB	40,064	42	0
JPM	07/2016	BRL	4,363	$	1,359	1	0
	07/2016	CAD	18,544		14,143	0	(210)
	07/2016	CHF	1,053		1,066	0	(13)
	07/2016	DKK	34,505		5,260	111	0
	07/2016	EUR	1,485		1,667	20	0
	07/2016	JPY	1,234,300		11,851	0	(102)
	07/2016	NOK	2,010		241	1	0
	07/2016	NZD	1,248		847	0	(44)
	07/2016	$	1,196	BRL	4,363	162	0
	07/2016		223	CAD	285	0	(2)
	07/2016		985	GBP	725	4	(24)
	08/2016	GBP	1,093	$	1,469	14	0
	08/2016	MXN	46,852		2,587	37	0
	08/2016	RUB	15,300		224	0	(13)
	08/2016	$	3,141	INR	212,408	0	(18)
	09/2016	AUD	85	$	64	0	0
	09/2016	CNH	14,076		2,129	24	0
	09/2016	JPY	1,770,000		16,627	0	(551)
	09/2016	SGD	520		387	1	0
	09/2016	$	530	CNH	3,458	0	(13)
	10/2016	CNH	5,775	$	883	20	0
	10/2016	DKK	44,085		6,707	107	0
	10/2016	$	881	CNY	5,772	0	(19)
	04/2017	DKK	23,096	$	3,505	20	0
MSB	07/2016	BRL	4,209		1,311	1	0
	07/2016	JPY	895,780		8,148	0	(526)
	07/2016	$	1,196	BRL	4,209	114	0
	07/2016		442	JPY	46,800	11	0
	08/2016	ZAR	2,701	$	179	0	(3)
	09/2016	AUD	743		557	4	0
	09/2016	EUR	62		69	0	0
	09/2016	SGD	331		245	0	(1)
	09/2016	$	111	EUR	100	0	0
	09/2016		3	SGD	4	0	0
NAB	07/2016		1,978	EUR	1,788	6	0
	07/2016		6,470	JPY	711,461	420	0
	07/2016		884	NZD	1,248	7	0
	08/2016	EUR	1,788	$	1,981	0	(6)
	08/2016	NZD	1,248		883	0	(7)
SCX	07/2016	AUD	6,734		4,839	0	(184)
	07/2016	$	13,462	JPY	1,371,819	0	(178)
	08/2016	CNH	10,940	$	1,665	26	0
	08/2016	INR	102,014		1,498	0	(2)

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
	08/2016	JPY	1,371,819	$	13,477	$ 181	$ 0
	10/2016	CNH	23,771		3,612	60	0
	10/2016	$	3,609	CNY	23,777	0	(61)
	01/2017		151	CNH	1,039	3	0
SOG	07/2016		13,981	CAD	18,259	152	0
	08/2016	CAD	18,259	$	13,982	0	(152)
	08/2016	INR	107,524		1,581	1	0
	08/2016	RUB	38,669		575	0	(23)
	01/2017	CNY	6,826		985	0	(28)
UAG	07/2016	DKK	7,374		1,111	10	0
	07/2016	EUR	2,185		2,486	61	0
	07/2016	GBP	2,332		3,363	258	0
	07/2016	$	667	EUR	605	5	0
	07/2016		737	GBP	531	0	(30)
	08/2016	CNH	1,735	$	265	5	0
	08/2016	JPY	3,500,000		32,753	0	(1,177)
	09/2016	CNH	2,254		341	4	0
	09/2016	SGD	146		108	0	0
	09/2016	$	559	AUD	754	2	0
	09/2016		3,627	CNH	23,647	0	(90)
	09/2016		58	SGD	78	0	0
	01/2017	DKK	5,965	$	907	11	0
	04/2017		13,668		2,077	15	0
Total Forward Foreign Currency Contracts						**$ 6,412**	**$ (4,683)**

PURCHASED OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price		Expiration Date	Notional Amount		Cost	Market Value
BOA	Put - OTC CHF versus SEK	SEK	8.090	07/27/2016	CHF	1,822	$ 9	$ 0
	Put - OTC GBP versus USD	$	1.335	09/28/2016	GBP	2,000	80	73
DUB	Put - OTC EUR versus USD		1.100	09/26/2016	EUR	2,002	39	31
GLM	Call - OTC EUR versus USD		1.140	09/07/2016		1,200	24	9
	Put - OTC EUR versus USD		1.140	09/07/2016		1,200	24	42
	Put - OTC EUR versus USD		1.105	09/28/2016		3,600	81	63
HUS	Call - OTC USD versus SGD	SGD	1.354	09/15/2016	$	900	13	10
	Put - OTC USD versus SGD		1.354	09/15/2016		900	13	13
JPM	Put - OTC CHF versus SEK	SEK	8.090	07/27/2016	CHF	1,600	5	0
	Call - OTC USD versus JPY	JPY	111.000	08/29/2016	$	1,900	32	3
SCX	Put - OTC EUR versus USD	$	1.120	07/07/2016	EUR	3,000	19	36
	Put - OTC EUR versus USD		1.100	09/26/2016		1,398	27	22
	Call - OTC USD versus CNY	CNY	6.520	10/31/2016	$	66	20	54
							$ 386	$ 356

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount		Cost	Market Value
CBK	Put - OTC 1-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	1.250%	12/27/2016	$	118,000	$ 39	$ 10
	Call - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.000	12/21/2016		3,300	27	27
JPM	Put - OTC 10-Year Interest Rate Swap	3-Month JPY-LIBOR	Receive	0.400	03/03/2017	JPY	80,000	5	2
MYC	Call - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.000	12/13/2016	$	4,800	41	37
								$ 112	$ 76
Total Purchased Options								**$ 498**	**$ 432**

WRITTEN OPTIONS:

CREDIT DEFAULT SWAPTIONS ON CREDIT INDICES

Counterparty	Description	Buy/Sell Protection	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BPS	Put - OTC iTraxx Europe 25 5-Year Index	Sell	1.250%	09/21/2016	EUR 2,100	$ (6)	$ (3)
CBK	Put - OTC iTraxx Europe 25 5-Year Index	Sell	1.250	09/21/2016	4,700	(16)	(7)
DUB	Put - OTC iTraxx Europe 25 5-Year Index	Sell	1.250	09/21/2016	1,200	(4)	(2)
SOG	Put - OTC iTraxx Europe 25 5-Year Index	Sell	1.250	09/21/2016	1,000	(3)	(2)
						$ (29)	$ (14)

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
AZD	Call - OTC USD versus CNY	CNY 7.000	11/01/2016	$ 500	$ (6)	$ (3)
BOA	Put - OTC AUD versus USD	$ 0.730	07/28/2016	AUD 300	(2)	(1)
	Call - OTC AUD versus USD	0.797	07/28/2016	300	(2)	0
	Put - OTC AUD versus USD	0.727	08/01/2016	800	(6)	(3)
	Call - OTC AUD versus USD	0.795	08/01/2016	800	(6)	0
	Put - OTC AUD Versus USD	0.716	08/03/2016	1,100	(8)	(3)
	Call - OTC AUD Versus USD	0.783	08/03/2016	1,100	(8)	(1)
	Call - OTC CHF versus SEK	SEK 8.604	07/27/2016	CHF 1,822	(14)	(26)
	Call - OTC GBP versus USD	$ 1.378	09/26/2016	GBP 500	(22)	(8)
	Put - OTC GBP versus USD	1.378	09/26/2016	500	(25)	(31)
	Put - OTC GBP versus USD	1.260	09/28/2016	2,000	(29)	(25)
	Put - OTC GBP versus USD	1.300	09/28/2016	2,000	(50)	(45)
BPS	Call - OTC GBP versus USD	1.370	09/26/2016	600	(27)	(11)
	Put - OTC GBP versus USD	1.370	09/26/2016	600	(27)	(34)
CBK	Put - OTC AUD versus USD	0.739	07/22/2016	AUD 1,900	(14)	(11)
	Put - OTC AUD versus USD	0.731	07/28/2016	600	(5)	(3)
	Call - OTC AUD versus USD	0.798	07/28/2016	600	(4)	0
	Call - OTC EUR versus JPY	JPY 113.150	09/26/2016	EUR 700	(26)	(26)
	Put - OTC EUR versus JPY	113.150	09/26/2016	700	(24)	(16)
DUB	Put - OTC AUD versus USD	$ 0.727	07/28/2016	AUD 800	(6)	(3)
	Call - OTC AUD versus USD	0.795	07/28/2016	800	(6)	0
	Put - OTC EUR versus USD	1.050	09/26/2016	EUR 2,002	(15)	(9)
	Call - OTC EUR versus USD	1.140	09/26/2016	2,002	(34)	(19)
FBF	Call - OTC USD versus BRL	BRL 6.300	01/11/2018	$ 600	(32)	(7)
GLM	Call - OTC AUD versus JPY	JPY 75.600	09/26/2016	AUD 800	(20)	(23)
	Put - OTC AUD versus JPY	75.600	09/26/2016	800	(21)	(15)
	Call - OTC EUR versus MXN	MXN 22.160	08/17/2016	EUR 1,600	(19)	(4)
	Put - OTC EUR versus MXN	18.900	03/21/2017	1,300	(51)	(13)
	Call - OTC EUR versus MXN	22.650	03/21/2017	1,300	(44)	(34)
	Put - OTC EUR versus USD	$ 1.060	09/28/2016	3,600	(31)	(22)
	Put - OTC EUR versus USD	1.080	09/28/2016	3,600	(48)	(35)
JPM	Call - OTC CHF versus SEK	SEK 8.600	07/27/2016	CHF 1,600	(13)	(23)
	Put - OTC USD versus JPY	JPY 106.500	08/29/2016	$ 1,900	(18)	(77)
	Call - OTC USD versus JPY	114.000	08/29/2016	1,900	(14)	(1)
NGF	Put - OTC USD versus KRW	KRW 1,145.000	01/24/2017	700	(18)	(21)
SCX	Put - OTC EUR versus USD	$ 1.100	07/07/2016	EUR 3,000	(8)	(6)
	Call - OTC EUR versus USD	1.160	07/07/2016	1,500	(6)	0
	Put - OTC EUR versus USD	1.050	09/26/2016	1,398	(10)	(6)
	Call - OTC EUR versus USD	1.140	09/26/2016	1,398	(23)	(14)
SOG	Call - OTC USD versus CNY	CNY 7.000	11/01/2016	$ 1,100	(13)	(6)
	Put - OTC USD versus KRW	KRW 1,100.000	07/22/2016	853	(5)	0
	Put - OTC USD versus KRW	1,145.000	01/19/2017	500	(11)	(15)
UAG	Put - OTC USD versus KRW	1,145.000	01/19/2017	600	(13)	(18)
					$ (784)	$ (618)

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
CBK	Call - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	0.770%	12/21/2016	$ 6,600	$ (27)	$ (27)
JPM	Put - OTC 2-Year Interest Rate Swap	3-Month JPY-LIBOR	Pay	0.000	03/03/2017	JPY 520,000	(5)	(4)
MYC	Call - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	0.765	12/13/2016	$ 9,600	(41)	(36)
							$ (73)	$ (67)

STRADDLE OPTIONS

Counterparty	Description	Exercise Level (1)	Expiration Date	Notional Amount	Premiums (Received) (1)	Market Value
DUB	Call & Put - OTC 1-Year USD/BRL versus 1-Year USD/BRL Forward Currency Volatility Agreement	0.000%	06/29/2017	$ 800	$ 0	$ (11)
GLM	Call & Put - OTC 1-Year USD/BRL versus 1-Year USD/BRL Forward Currency Volatility Agreement	0.000	06/30/2017	500	0	0
JPM	Call & Put - OTC 1-Year USD/KRW versus 1-Year USD/KRW Forward Currency Volatility Agreement	0.000	02/20/2017	100	0	0
					$ 0	$ (11)
Total Written Options					**$ (886)**	**$ (710)**

(1) Exercise level and final premium determined on a future date, based upon implied volatility parameters.

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED JUNE 30, 2016:

	Balance at Beginning of Period	Sales	Closing Buys	Expirations	Exercised	Balance at End of Period
# of Contracts	0	42	0	(42)	0	0
Notional Amount in $	$ 24,460	$ 46,859	$ (9,090)	$ (22,076)	$ (13,900)	$ 26,253
Notional Amount in AUD	AUD 0	AUD 12,600	AUD (1,900)	AUD 0	AUD 0	AUD 10,700
Notional Amount in CHF	CHF 0	CHF 6,722	CHF (3,300)	CHF 0	CHF 0	CHF 3,422
Notional Amount in EUR	EUR 6,000	EUR 52,877	EUR (6,000)	EUR (19,777)	EUR 0	EUR 33,100
Notional Amount in GBP	GBP 14,800	GBP 6,900	GBP (700)	GBP (9,200)	GBP (5,600)	GBP 6,200
Notional Amount in JPY	JPY 0	JPY 520,000	JPY 0	JPY 0	JPY 0	JPY 520,000
Premiums	$ (363)	$ (1,319)	$ 277	$ 397	$ 122	$ (886)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - BUY PROTECTION (2)

Counterparty	Reference Entity	Fixed (Pay) Rate	Maturity Date	Implied Credit Spread at June 30, 2016 (4)	Notional Amount (5)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Reynolds American, Inc.	(1.000)%	12/20/2020	0.361%	$ 100	$ (3)	$ 0	$ 0	$ (3)
	Veolia Environnement S.A.	(1.000)	12/20/2020	0.630	EUR 100	(1)	(1)	0	(2)
	Wind Acquisition Finance S.A.	(5.000)	06/20/2021	4.338	300	(41)	31	0	(10)
BPS	Koninklijke DSM NV	(1.000)	12/20/2020	0.368	200	(5)	(2)	0	(7)
	Teliasonera AB	(1.000)	12/20/2020	0.496	200	(2)	(3)	0	(5)
BRC	Bayer AG	(1.000)	12/20/2020	0.591	100	(2)	0	0	(2)
	Koninklijke DSM NV	(1.000)	12/20/2020	0.368	200	(4)	(2)	0	(6)
	Navient Corp.	(5.000)	03/20/2019	3.870	$ 1,100	(82)	49	0	(33)
	Reynolds American, Inc.	(1.000)	12/20/2020	0.361	200	(6)	0	0	(6)
	Springleaf Finance Corp.	(5.000)	06/20/2020	5.278	400	(38)	41	3	0
	UBS AG	(1.000)	09/20/2022	1.985	750	22	20	42	0
CBK	BAT Netherlands Finance BV	(1.000)	12/20/2020	0.561	EUR 200	(4)	(1)	0	(5)
	Bayer AG	(1.000)	12/20/2020	0.591	200	(4)	0	0	(4)
	UBS AG	(1.000)	09/20/2022	1.985	$ 800	43	2	45	0
	UnitedHealth Group, Inc.	(1.000)	12/20/2020	0.333	200	(6)	0	0	(6)
FBF	Altria Group, Inc.	(1.000)	12/20/2020	0.284	200	(6)	0	0	(6)
	Reynolds American, Inc.	(1.000)	12/20/2020	0.361	200	(6)	0	0	(6)
GST	Altria Group, Inc.	(1.000)	12/20/2020	0.284	400	(13)	0	0	(13)
	BASF SE	(1.000)	12/20/2020	0.488	EUR 200	(5)	0	0	(5)
	BAT Netherlands Finance BV	(1.000)	12/20/2020	0.561	100	(2)	0	0	(2)
	Koninklijke DSM NV	(1.000)	12/20/2020	0.368	200	(4)	(2)	0	(6)
	Reynolds American, Inc.	(1.000)	12/20/2020	0.361	$ 100	(3)	0	0	(3)
	SABMiller PLC	(1.000)	01/20/2022	0.369	100	(3)	(1)	0	(4)
	Veolia Environnement S.A.	(1.000)	12/20/2020	0.630	EUR 100	0	(2)	0	(2)
JPM	Altria Group, Inc.	(1.000)	12/20/2020	0.284	$ 100	(3)	0	0	(3)
	BAT Netherlands Finance BV	(1.000)	12/20/2020	0.561	EUR 100	(2)	0	0	(2)
	Pfizer, Inc.	(1.000)	12/20/2020	0.230	$ 500	(19)	2	0	(17)
	UnitedHealth Group, Inc.	(1.000)	12/20/2020	0.333	100	(3)	0	0	(3)
MYC	Pfizer, Inc.	(1.000)	12/20/2020	0.230	200	(8)	1	0	(7)
	Reynolds American, Inc.	(1.000)	12/20/2020	0.361	100	(3)	0	0	(3)
SOG	Intesa Sanpaolo SpA	(1.000)	03/20/2026	3.524	900	130	46	176	0
	United Utilities PLC	(1.000)	12/20/2020	0.720	EUR 200	0	(3)	0	(3)
						$ (83)	$ 175	$ 266	$ (174)

CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - SELL PROTECTION (3)

Counterparty	Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2016 (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	1.824%	$ 300	$ (15)	$ 9	$ 0	$ (6)
	Brazil Government International Bond	1.000	09/20/2019	2.139	100	(3)	(1)	0	(4)
	Volkswagen International Finance NV	1.000	12/20/2016	0.339	EUR 600	(3)	5	2	0
BPS	Tesco PLC	1.000	06/20/2021	2.720	500	(41)	(3)	0	(44)
BRC	Russia Government International Bond	1.000	09/20/2016	0.228	$ 500	(6)	7	1	0
CBK	Brazil Government International Bond	1.000	03/20/2019	1.824	100	(4)	2	0	(2)
	Tesco PLC	1.000	12/20/2020	2.536	EUR 300	(25)	3	0	(22)
DUB	Brazil Government International Bond	1.000	03/20/2019	1.824	$ 300	(13)	7	0	(6)
FBF	Tesco PLC	1.000	12/20/2020	2.536	EUR 100	(8)	1	0	(7)
HUS	Brazil Government International Bond	1.000	06/20/2019	1.944	$ 100	(2)	(1)	0	(3)
	Brazil Government International Bond	1.000	09/20/2019	2.139	100	(3)	(1)	0	(4)
	Russia Government International Bond	1.000	09/20/2016	0.228	500	(6)	7	1	0
JPM	Brazil Government International Bond	1.000	03/20/2019	1.824	200	(8)	4	0	(4)
	Tesco PLC	1.000	12/20/2020	2.536	EUR 800	(68)	10	0	(58)
MYC	Brazil Government International Bond	1.000	03/20/2019	1.824	$ 100	(4)	2	0	(2)
	Brazil Government International Bond	1.000	09/20/2019	2.139	100	(3)	(1)	0	(4)
	Tesco PLC	1.000	12/20/2020	2.536	EUR 200	(16)	2	0	(14)
						$ (228)	$ 52	$ 4	$ (180)

(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, securities, or other deliverable obligations 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, securities, or other deliverable obligations 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.

CROSS-CURRENCY SWAPS

Counterparty	Receive	Pay	Maturity Date (6)	Notional Amount of Currency Received	Notional Amount of Currency Delivered	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Floating rate equal to 3-Month EUR-EURIBOR less 0.500% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	09/21/2021	EUR 2,800	$ 3,035	$ (3)	$ 68	$ 65	$ 0
	Floating rate equal to 3-Month EUR-EURIBOR less 0.500% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	09/21/2026	2,700	3,040	10	(72)	0	(62)
	Floating rate equal to 3-Month GBP-LIBOR less 0.150% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/15/2019	6,600	9,392	(6)	(605)	0	(611)
BPS	Floating rate equal to 3-Month EUR-EURIBOR less 0.500% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	09/21/2021	6,470	7,013	206	(56)	150	0
CBK	Floating rate equal to 3-Month EUR-EURIBOR less 0.500% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	09/21/2026	5,090	5,518	101	(4)	97	0
	Floating rate equal to 3-Month GBP-LIBOR less 0.140% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/15/2019	4,500	6,345	20	(376)	0	(356)

Counterparty	Receive	Pay	Maturity Date (6)	Notional Amount of Currency Received	Notional Amount of Currency Delivered	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
DUB	Floating rate equal to 3-Month EUR-EURIBOR less 0.500% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	09/21/2021	EUR 7,500	$ 8,130	$ 293	$ (119)	$ 174	$ 0
	Floating rate equal to 3-Month EUR-EURIBOR less 0.500% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	09/21/2026	1,600	1,802	6	(43)	0	(37)
GLM	Floating rate equal to 3-Month GBP-LIBOR less 0.120% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/15/2019	7,000	10,126	(71)	(736)	0	(807)
	Floating rate equal to 03-Month USD-LIBOR less 0.755% based on the notional amount of currency received	Floating rate equal to 03-Month JPY-LIBOR based on the notional amount of currency delivered	09/21/2018	$ 3,988	JPY 410,000	(8)	0	0	(8)
						$ 548	$ (1,943)	$ 486	$ (1,881)

(6) At the maturity date, the notional amount of the currency received will be exchanged back for the notional amount of the currency delivered.

INTEREST RATE SWAPS

Counterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Pay	3-Month KRW-KORIBOR	1.860%	12/01/2020	KRW 1,607,700	$ 0	$ 39	$ 39	$ 0
CBK	Pay	3-Month KRW-KORIBOR	1.863	12/01/2020	996,500	0	25	25	0
DUB	Pay	1-Year BRL-CDI	12.360	01/04/2021	BRL 7,300	(10)	38	28	0
	Pay	3-Month KRW-KORIBOR	1.860	12/01/2020	KRW 4,823,100	0	117	117	0
NGF	Pay	3-Month KRW-KORIBOR	1.863	12/01/2020	1,607,700	0	39	39	0
						$ (10)	$ 258	$ 248	$ 0

VOLATILITY SWAPS

Counterparty	Pay/Receive Volatility	Reference Entity	Volatility Strike	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
DUB	Pay	EUR versus BRL 1-Year ATM Implied Volatility	24.000%	07/07/2016	$ 200	$ 0	$ 16	$ 16	$ 0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.350	08/16/2016	600	0	18	18	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.450	08/16/2016	300	0	9	9	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.650	08/16/2016	300	0	10	10	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.700	08/16/2016	300	0	10	10	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.800	08/16/2016	300	0	10	10	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	9.000	08/16/2016	300	0	11	11	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.500	09/14/2016	300	0	7	7	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.400	12/06/2016	200	0	4	4	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	7.250	01/03/2017	4	0	0	0	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.500	03/22/2017	400	0	7	7	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.150	03/30/2017	300	0	4	4	0
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.250	08/16/2016	300	0	(2)	0	(2)
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.450	08/16/2016	300	0	(2)	0	(2)
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.550	08/16/2016	600	0	(6)	0	(6)
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.900	08/16/2016	300	0	(5)	0	(5)
	Receive	USD versus CHF 1-Year ATM Implied Volatility	11.200	08/16/2016	600	0	(11)	0	(11)
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.000	09/14/2016	300	0	(4)	0	(4)
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.800	12/06/2016	200	0	(3)	0	(3)
	Receive	USD versus CHF 1-Year ATM Implied Volatility	9.250	01/03/2017	4	0	0	0	0
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.300	03/22/2017	400	0	(4)	0	(4)
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.050	03/30/2017	300	0	(3)	0	(3)
HUS	Pay	EUR versus BRL 1-Year ATM Implied Volatility	24.500	07/08/2016	200	0	18	18	0
	Pay	EUR versus BRL 1-Year ATM Implied Volatility	23.750	07/13/2016	300	0	24	24	0
						$ 0	$ 108	$ 148	$ (40)
Total Swap Agreements						**$ 227**	**$ (1,350)**	**$ 1,152**	**$ (2,275)**

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, 2016:

(k) Securities with an aggregate market value of $2,514 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of June 30, 2016.

	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 [7]
AZD	$ 70	$ 0	$ 0	$ 70	$ (46)	$ (3)	$ 0	$ (49)	$ 21	$ 0	$ 21
BOA	2,891	73	106	3,070	(391)	(143)	(698)	(1,232)	1,838	(2,410)	(572)
BPS	331	0	150	481	(268)	(48)	(56)	(372)	109	0	109
BRC	4	0	46	50	(3)	0	(47)	(50)	0	0	0
CBK	724	37	167	928	(438)	(90)	(395)	(923)	5	(330)	(325)
DUB	33	31	425	489	(7)	(44)	(83)	(134)	355	(470)	(115)
FBF	0	0	0	0	0	(7)	(19)	(26)	(26)	0	(26)
GLM	376	114	0	490	(36)	(146)	(815)	(997)	(507)	(280)	(787)
GST	0	0	0	0	0	0	(35)	(35)	(35)	0	(35)
HUS	104	23	43	170	(17)	0	(7)	(24)	146	0	146
JPM	522	5	0	527	(1,009)	(105)	(87)	(1,201)	(674)	604	(70)
MSB	130	0	0	130	(530)	0	0	(530)	(400)	568	168
MYC	0	37	0	37	0	(36)	(30)	(66)	(29)	0	(29)
NAB	433	0	0	433	(13)	0	0	(13)	420	(540)	(120)
NGF	0	0	39	39	0	(21)	0	(21)	18	0	18
SCX	270	112	0	382	(425)	(26)	0	(451)	(69)	0	(69)
SOG	153	0	176	329	(203)	(23)	(3)	(229)	100	0	100
UAG	371	0	0	371	(1,297)	(18)	0	(1,315)	(944)	1,343	399
Total Over the Counter	**$ 6,412**	**$ 432**	**$ 1,152**	**$ 7,996**	**$ (4,683)**	**$ (710)**	**$ (2,275)**	**$ (7,668)**			

[7] 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, 2016:

	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	$ 298	$ 298
Swap Agreements	0	73	0	0	376	449
	$ 0	$ 73	$ 0	$ 0	$ 674	$ 747
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 6,412	$ 0	$ 6,412
Purchased Options	0	0	0	356	76	432
Swap Agreements	0	270	0	634	248	1,152
	$ 0	$ 270	$ 0	$ 7,402	$ 324	$ 7,996
	$ 0	$ 343	$ 0	$ 7,402	$ 998	$ 8,743
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 101	$ 101
Swap Agreements	0	218	0	0	166	384
	$ 0	$ 218	$ 0	$ 0	$ 267	$ 485
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 4,683	$ 0	$ 4,683
Written Options	0	14	0	629	67	710
Swap Agreements	0	354	0	1,921	0	2,275
	$ 0	$ 368	$ 0	$ 7,233	$ 67	$ 7,668
	$ 0	$ 586	$ 0	$ 7,233	$ 334	$ 8,153

The effect of Financial Derivative Instruments on the Statement of Operations for the period ended June 30, 2016:

	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	$ 16	$ 16
Futures	0	0	0	0	2,342	2,342
Swap Agreements	0	(57)	0	0	(4,563)	(4,620)
	$ 0	$ (57)	$ 0	$ 0	$ (2,205)	$ (2,262)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (4,945)	$ 0	$ (4,945)
Purchased Options	0	0	0	(340)	0	(340)
Written Options	0	36	0	367	131	534
Swap Agreements	0	40	0	1,407	100	1,547
	$ 0	$ 76	$ 0	$ (3,511)	$ 231	$ (3,204)
	$ 0	$ 19	$ 0	$ (3,511)	$ (1,974)	$ (5,466)
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ (3)	$ (3)
Futures	0	0	0	0	3,253	3,253
Swap Agreements	0	247	0	0	4,659	4,906
	$ 0	$ 247	$ 0	$ 0	$ 7,909	$ 8,156
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 1,795	$ 0	$ 1,795
Purchased Options	0	0	0	(67)	(35)	(102)
Written Options	0	6	0	148	(72)	82
Swap Agreements	0	146	0	(2,250)	202	(1,902)
	$ 0	$ 152	$ 0	$ (374)	$ 95	$ (127)
	$ 0	$ 399	$ 0	$ (374)	$ 8,004	$ 8,029

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of June 30, 2016 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2016
Investments in Securities, at Value				
Australia				
Sovereign Issues	$ 0	$ 617	$ 0	$ 617
Brazil				
Corporate Bonds & Notes	0	2,527	0	2,527
Canada				
Corporate Bonds & Notes	0	3,764	0	3,764
Non-Agency Mortgage-Backed Securities	0	987	0	987
Sovereign Issues	0	11,934	0	11,934
Cayman Islands				
Asset-Backed Securities	0	1,405	0	1,405
Denmark				
Corporate Bonds & Notes	0	42,666	0	42,666
France				
Corporate Bonds & Notes	0	1,873	0	1,873
Non-Agency Mortgage-Backed Securities	0	495	0	495
Sovereign Issues	0	9,232	0	9,232
Germany				
Corporate Bonds & Notes	0	3,288	0	3,288
Sovereign Issues	0	1,247	0	1,247
Greece				
Corporate Bonds & Notes	0	528	0	528
Sovereign Issues	0	1,249	0	1,249
Guernsey, Channel Islands				
Corporate Bonds & Notes	0	800	0	800
Ireland				
Asset-Backed Securities	0	817	0	817
Corporate Bonds & Notes	0	3,940	0	3,940

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2016
Non-Agency Mortgage-Backed Securities	$ 0	$ 741	$ 0	$ 741
Sovereign Issues	0	1,102	0	1,102
Italy				
Corporate Bonds & Notes	0	2,568	0	2,568
Non-Agency Mortgage-Backed Securities	0	1,140	0	1,140
Sovereign Issues	0	14,113	0	14,113
Japan				
Corporate Bonds & Notes	0	1,733	0	1,733
Sovereign Issues	0	15,688	0	15,688
Jersey, Channel Islands				
Corporate Bonds & Notes	0	1,987	0	1,987
Luxembourg				
Corporate Bonds & Notes	0	2,622	0	2,622
Mexico				
Sovereign Issues	0	1,718	0	1,718
Netherlands				
Asset-Backed Securities	0	1,377	0	1,377
Corporate Bonds & Notes	0	5,924	0	5,924
Norway				
Corporate Bonds & Notes	0	406	0	406
Sovereign Issues	0	648	0	648
Portugal				
Corporate Bonds & Notes	0	397	0	397
Qatar				
Sovereign Issues	0	328	0	328
Slovenia				
Sovereign Issues	0	12,183	0	12,183

See Accompanying Notes

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2016
South Korea				
Corporate Bonds & Notes	$ 0	$ 700	$ 0	$ 700
Spain				
Corporate Bonds & Notes	0	471	0	471
Sovereign Issues	0	8,365	0	8,365
Supranational				
Corporate Bonds & Notes	0	1,957	0	1,957
Sweden				
Corporate Bonds & Notes	0	5,660	0	5,660
Switzerland				
Corporate Bonds & Notes	0	1,908	0	1,908
Sovereign Issues	0	508	0	508
United Kingdom				
Asset-Backed Securities	0	27	0	27
Corporate Bonds & Notes	0	12,584	0	12,584
Non-Agency Mortgage-Backed Securities	0	4,365	0	4,365
Sovereign Issues	0	12,662	0	12,662
United States				
Asset-Backed Securities	0	22,543	0	22,543
Bank Loan Obligations	0	599	0	599
Corporate Bonds & Notes	0	19,323	0	19,323
Municipal Bonds & Notes	0	147	0	147
Non-Agency Mortgage-Backed Securities	0	6,996	31	7,027
Preferred Securities	22	0	0	22
U.S. Government Agencies	0	23,171	1,791	24,962
U.S. Treasury Obligations	0	27,224	0	27,224
Short-Term Instruments				
Repurchase Agreements	0	3,318	0	3,318
France Treasury Bills	0	222	0	222

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2016
Japan Treasury Bills	$ 0	$ 51,050	$ 0	$ 51,050
U.S. Treasury Bills	0	2,828	0	2,828
	$ 22	$ 358,672	$ 1,822	$ 360,516
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 23,167	$ 0	$ 0	$ 23,167
Total Investments	$ 23,189	$ 358,672	$ 1,822	$ 383,683
Short Sales, at Value - Liabilities				
U.S. Treasury Obligations	$ 0	$ (2,479)	$ 0	$ (2,479)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	298	449	0	747
Over the counter	0	7,996	0	7,996
	$ 298	$ 8,445	$ 0	$ 8,743
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(101)	(252)	0	(353)
Over the counter	0	(7,668)	0	(7,668)
	$ (101)	$ (7,920)	$ 0	$ (8,021)
Totals	$ 23,386	$ 356,718	$ 1,822	$ 381,926

There were no significant transfers between Levels 1, 2, or 3 during the period ended June 30, 2016.

1. ORGANIZATION

PIMCO Variable Insurance Trust (the "Trust") was established as a Delaware business trust on October 3, 1997. The Trust is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. 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. Information presented in these financial statements pertains to the Institutional Class, Administrative Class and Advisor Class shares of the PIMCO Foreign Bond (U.S. Dollar-Hedged) (the "Portfolio") offered by the Trust. 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 (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, with the exception of securities with a forward starting effective date, where interest income is recorded on the accrual basis from effective 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 (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 registered investment companies are recorded as dividend income. Long-term capital gain distributions received from registered investment companies 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 denominated in foreign currencies 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 gain (loss) and net change in unrealized appreciation (depreciation) 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, if any). Realized foreign exchange gains (losses) arising from sales of spot foreign currencies, currency gains (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 (loss) on foreign currency transactions on the Statement of Operations. Net unrealized foreign exchange gains (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 (depreciation) on foreign currency assets and liabilities on the Statement of Operations.

(c) Multiclass Operations Each class offered by the Trust 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 net assets.

Realized and unrealized capital gains (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. Under certain circumstances, the per share net asset value ("NAV") of a class of the Portfolio's shares may be different from the per share NAV of another class of shares as a result of the different daily expense accruals applicable to each class of shares.

(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 transactions that may cause character 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 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 gain (loss) and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

(e) New Accounting Pronouncements In August 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), ASU 2014-15 requiring management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern. The ASU is effective prospectively for annual periods ending after December 15, 2016, and interim periods thereafter. 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 NAV 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 NAV per share practical expedient. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. The ASU did not have an impact on the Portfolio's 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 the Portfolio, or each of its share classes, as applicable, is determined by dividing the total value of portfolio investments and other assets attributable to the Portfolio or class, less any liabilities, by the total number of shares outstanding of the Portfolio or class.

On each day that the New York Stock Exchange ("NYSE") is open, Portfolio shares are ordinarily valued as of the close of regular trading ("NYSE Close"). 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 Adviser 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 (other than exchange-traded funds ("ETFs")), 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 of the Trust (the "Board"). 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 shareholders 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 value of such investments and, in turn, 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 investments 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.) investments, the value of those investments may change at times when shareholders are unable to buy or sell shares and the value of such investments will be reflected in the Portfolio's next calculated NAV.

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 or persons acting at their direction. The Board has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to the Adviser 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 ("Valuation Oversight Committee"), generally based on recommendations provided by the Adviser. 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, indicative market quotations ("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 the Adviser 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 a Portfolio uses fair valuation to determine the value of a portfolio security or other asset for purposes of calculating its NAV, such investments 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 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 or persons acting at their direction would accurately reflect the price that a 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 a 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 into 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 realized gain (loss), unrealized appreciation (depreciation), purchases and sales, accrued discounts (premiums), and transfers into and 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 and liabilities 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 Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The Pricing Services' 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 Services 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, ETFs, exchange-traded notes and financial derivative instruments, such as futures contracts, rights and warrants, 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.

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 Services 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 (other than ETFs) 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 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 debt investments having a maturity of 60 days or less and repurchase agreements were generally valued at amortized cost which approximates fair value. Short-term debt instruments having a remaining maturity of 60 days or less are categorized as Level 2 of the fair value hierarchy.

Equity exchange-traded options and over the counter financial derivative instruments, such as forward 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 as of the NYSE Close). Depending on the product and the terms of the transaction, financial derivative instruments can be valued by Pricing Services 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 the Adviser that uses significant unobservable inputs, investments will be priced by a method that the Board or persons acting at their direction believe reflects fair value and are categorized as Level 3 of the fair value hierarchy.

The validity of the fair value is reviewed by the Adviser on a periodic basis and may be amended in accordance with the Trust's valuation procedures.

4. SECURITIES AND OTHER INVESTMENTS

(a) 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 other series of registered investment companies advised by the Adviser, in connection with their cash management activities. The main investments of the Central Fund are money market and short maturity fixed income instruments. The Central Fund may incur expenses related to its investment activities, but does not pay Investment Advisory Fees or

Supervisory and Administrative Fees to the Adviser. 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 affiliated Fund for the period ended June 30, 2016 (amounts in thousands†):

Investments in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2015	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 06/30/2016	Dividend Income (1)	Realized Net Capital Gain Distributions (1)
$ 59,473	$ 85,456	$ (121,800)	$ (199)	$ 237	$ 23,167	$ 156	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.
(1) The tax characterization of distributions is determined in accordance with Federal income tax regulations. The actual tax characterization of distributions paid are determined at the end of the fiscal year. See Note 2(d) in the Notes to Financial Statements for more information.

(b) 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 or assignments of all or a portion of loans from third parties or investments in or originations of loans by the Portfolio. A loan is often administered by a bank or other financial institution (the "agent") 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 agents it acquires direct rights against the borrowers of the loans. 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 agent selling the loan agreement and only upon receipt of payments by the agent 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, 2016, 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 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.

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.

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 To Be Announced ("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 purchased or sold are reflected on the Statement of Assets and Liabilities as an asset or liability, respectively.

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. Transactions to purchase or sell securities on a when-issued basis involve a commitment 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 (loss).

5. BORROWINGS AND OTHER FINANCING TRANSACTIONS

The following disclosures contain information on the Portfolio's ability to lend or borrow cash or securities to the extent permitted under the Act, which may be viewed as borrowing or financing transactions by the Portfolio. The location of these instruments in the Portfolio's financial statements is 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 purchases 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 by 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, if any, 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 the 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 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, 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 net realized gain (loss) and net change in unrealized appreciation (depreciation) 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 net realized gain (loss) and net change in unrealized appreciation (depreciation) 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 (loss). Realized gains (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 (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 ("Futures Variation Margin"). Gains (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 the Futures Variation Margin included within exchange traded or centrally cleared financial derivative instruments on the Statement of Assets and Liabilities.

(c) Options Contracts The Portfolio may write or purchase options to enhance returns or to hedge an existing position or future investment. 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 (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 (loss) when the underlying transaction is executed.

Credit Default Swaptions The Portfolio may write or purchase credit default swaptions to hedge exposure to the credit risk of an investment without making a commitment to the underlying instrument. A credit default swaption is an option to sell or buy credit protection to a specific reference by entering into a pre-defined swap agreement by some specified date in the future.

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.

Interest Rate Swaptions The Portfolio may write or purchase interest rate swaptions 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.

Options on Exchange-Traded Futures Contracts The Portfolio may write or purchase options on exchange-traded futures contracts ("Futures Option") to hedge an existing position or future investment, for speculative purposes or to manage exposure to market movements. A Futures Option is an option contract in which the underlying instrument is a single futures contract.

Straddle Options The Portfolio may enter into differing forms of straddle options ("Straddle"). 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.

Centrally Cleared 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 ("Swap Variation Margin"), if any, are disclosed within centrally cleared financial derivative instruments 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 gain (loss) 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 (loss) on the Statement of Operations. Net periodic payments received or paid by the Portfolio are included as part of realized gain (loss) 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 swap 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 may be 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 A Portfolio may use credit default swaps on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues to provide a measure of protection against defaults of the issuers (*i.e.*, to reduce risk where a 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 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 swap 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. 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).

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, loan, sovereign, U.S. municipal or U.S. Treasury issues as of period end, if any, 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.

Volatility Swap Agreements The Portfolio also may enter into forward volatility agreements, also known as volatility swaps. In a volatility swap, the counterparties agree to make payments in connection with changes in the volatility (*i.e.*, the magnitude of change over a specified period of time) of an underlying referenced instrument, such as a currency, rate, index, security or other financial instrument. Volatility swaps permit the parties to attempt to hedge volatility risk and/or take positions on the projected future volatility of an underlying referenced instrument. For example, the Portfolio may enter into a volatility swap in order to take the position that the referenced instrument's volatility will increase over a particular period of time. If the referenced instrument's volatility does increase over the specified time, the Portfolio will receive payment from its counterparty based upon the amount by which the referenced instrument's realized volatility level exceeds a volatility level agreed upon by the parties. If the referenced instrument's volatility does not increase over the specified time, the Portfolio will make a payment to the counterparty based upon the amount by which the referenced instrument's realized volatility level falls below the volatility level agreed upon by the parties. At the maturity date, a net cash flow is exchanged, where the payoff amount is equivalent to the difference between the realized price volatility of the referenced instrument and the strike multiplied by the notional amount. As a receiver of the realized price volatility, the Portfolio would receive the payoff amount when the realized price volatility of the referenced instrument is greater than the strike and would owe the payoff amount when the volatility is less than the strike. As a payer of the realized price volatility, the Portfolio would owe the payoff amount when the realized price volatility of the referenced instrument is greater than the strike and would receive the payoff amount when the volatility is less than the strike. Payments on a volatility swap will be greater if they are based upon the mathematical square of volatility (*i.e.*, the measured volatility multiplied by itself, which is referred to as "variance"). This type of volatility swap is frequently referred to as a variance swap.

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 derivative instruments and other financial instruments expose the Portfolio to various risks such as, but not limited to, interest rate, foreign (non-U.S.) currency, equity and commodity risks.

Interest rate risk is the risk that fixed income securities and other instruments held by the Portfolio 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 the Portfolio's 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.

Duration is a measure used to determine the sensitivity of a security's price to changes in interest rates that incorporates a security's yield, coupon, final maturity and call features, among other characteristics. Convexity is an additional measure of interest rate sensitivity that measures the rate of change of duration in response to changes in interest rates. 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. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). At present, the U.S. and many parts of the world, including certain European countries, are experiencing near historically low interest rates. The Portfolio may be subject to heightened interest rate risk because the Fed has ended its quantitative easing program and has begun, and may continue, to raise interest rates. Further, while bond markets have steadily grown over the past three decades, dealer "market making" ability has not kept pace and in some cases has decreased. 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 shareholder redemptions, which could force the Portfolio to liquidate investments at disadvantageous times or prices, thereby adversely affecting the Portfolio.

To the extent that the Portfolio may invest in securities and instruments that are economically tied to Russia, the Portfolio is 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, as compared to U.S. markets, has significant price volatility, less liquidity, a smaller market capitalization and a smaller number of traded securities. 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 derivative instruments 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. Over the counter ("OTC") derivative transactions are subject to the risk that a counterparty to the transaction will not fulfill its contractual obligations to the other party, as many of the protections afforded to centrally cleared derivative transactions might not be available for OTC derivative transactions. For financial derivative instruments traded on exchanges or clearinghouses, the primary credit risk is the creditworthiness of the Portfolio's clearing broker or the exchange or clearinghouse itself. The Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a financial derivative instruments 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 and financial derivative instruments are subject to varying degrees of credit risk, which may be 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. PIMCO's attempts to minimize counterparty risk may, however, be unsuccessful.

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 ("Master Agreements") with select counterparties. Master Agreements govern the terms of certain transactions, and reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. 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 presents 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 most 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 depending on the terms outlined in the applicable Master Agreement. 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 with counterparty. 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 from counterparty. 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, transaction 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 addenda govern cleared derivatives transactions such as futures, options on futures, and cleared OTC derivatives. Such transactions require posting of initial margin as determined by each relevant clearing agency which is segregated in an account at a futures commission merchant ("FCM") registered with the Commodity Futures Trading Commission ("CFTC"). In the United States, counterparty risk may be reduced as creditors of an FCM cannot have a claim to Portfolio assets in the segregated account. Portability of exposure 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 unless the parties have agreed to a separate arrangement in respect of portfolio margining. The market value or accumulated unrealized appreciation (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 bilateral OTC derivative transactions entered into by the Portfolio with select counterparties. ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral posting 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, as applicable, is charged at the annual rate as noted in the following table:

	Supervisory and Administrative Fee
Institutional Class	0.50%
Administrative Class	0.50%
Advisor Class	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.

	Distribution Fee	Servicing Fee
Administrative Class	—	0.15%
Advisor Class	0.25%	—

(d) Portfolio Expenses PIMCO provides or procures supervisory and administrative services for shareholders and also bears the costs of various third-party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. 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.

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, so that each co-lead individually receives an additional retainer of $1,625) and the governance committee chair receives an additional annual retainer of $1,500. The Lead Independent Trustee receives an annual retainer of $3,500.

These expenses are allocated on a pro rata basis to each Portfolio of the Trust according to its respective net assets except PIMCO All Asset Portfolio. 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, Fees and Expenses, 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. 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, or an affiliate of 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 under the Act. Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended June 30, 2016, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

Purchases	Sales
$ 13,960	$ 5,968

10. GUARANTEES AND INDEMNIFICATIONS

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

11. PURCHASES AND SALES OF SECURITIES

The length of time the Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the Portfolio is known as "portfolio turnover." The Portfolio may engage in frequent and active trading of portfolio securities to achieve its investment objective, particularly during periods of volatile market movements. High portfolio turnover may involve correspondingly greater transaction costs 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 transaction costs and tax effects associated with portfolio turnover may adversely affect the Portfolio's performance. The portfolio turnover rates are reported in the Financial Highlights.

Purchases and sales of securities (excluding short-term investments) for the period ended June 30, 2016, were as follows (amounts in thousands):

U S Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 260,347	$ 246,437	$ 115,121	$ 83,823

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 06/30/2016		Year Ended 12/31/2015	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	81	$ 879	215	$ 2,352
Administrative Class	678	7,281	4,371	48,158
Advisor Class	5,449	58,647	13,971	152,491
Issued as reinvestment of distributions				
Institutional Class	2	19	10	102
Administrative Class	29	318	251	2,680
Advisor Class	102	1,103	677	7,198
Cost of shares redeemed				
Institutional Class	(15)	(166)	(21)	(230)
Administrative Class	(1,662)	(17,766)	(5,865)	(64,356)
Advisor Class	(100)	(1,067)	(38)	(409)
Net increase (decrease) resulting from Portfolio share transactions	4,564	$ 49,248	13,571	$ 147,986

As of June 30, 2016, one shareholder owned 10% or more of the Portfolio's total outstanding shares comprising 81% of the Portfolio.

13. REGULATORY AND LITIGATION MATTERS

The Portfolio 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 non-public 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 the 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, 2016, 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 2013-2015, 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.

Under the Regulated Investment Company Act of 2010, a fund is permitted to carry forward any new capital losses for an unlimited period. Additionally, such capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term under previous law.

As of June 30, 2016, 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]
$ 378,778	$ 11,433	$ (6,528)	$ 4,905

[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:

AZD	Australia and New Zealand Banking Group	**GLM**	Goldman Sachs Bank USA	**NAB**	National Australia Bank Ltd.
BOA	Bank of America N.A.	**GSC**	Goldman Sachs & Co.	**NGF**	Nomura Global Financial Products, 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	**MYC**	Morgan Stanley Capital Services, Inc.		

Currency Abbreviations:

AUD	Australian Dollar	**GBP**	British Pound	**NZD**	New Zealand Dollar
BRL	Brazilian Real	**HKD**	Hong Kong Dollar	**RUB**	Russian Ruble
CAD	Canadian Dollar	**INR**	Indian Rupee	**SEK**	Swedish Krona
CHF	Swiss Franc	**JPY**	Japanese Yen	**SGD**	Singapore Dollar
CNH	Chinese Renminbi (Offshore)	**KRW**	South Korean Won	**TWD**	Taiwanese Dollar
CNY	Chinese Renminbi (Mainland)	**MXN**	Mexican Peso	**USD (or $)**	United States Dollar
DKK	Danish Krone	**NOK**	Norwegian Krone	**ZAR**	South African Rand
EUR	Euro				

Exchange Abbreviations:

CBOT	Chicago Board of Trade	**OTC**	Over the Counter

Index/Spread Abbreviations:

CDX.HY	Credit Derivatives Index - High Yield	**CDX.IG**	Credit Derivatives Index - Investment Grade

Other Abbreviations:

ABS	Asset-Backed Security	**CDO**	Collateralized Debt Obligation	**LIBOR**	London Interbank Offered Rate
ALT	Alternate Loan Trust	**CLO**	Collateralized Loan Obligation	**NCUA**	National Credit Union Administration
BABs	Build America Bonds	**EURIBOR**	Euro Interbank Offered Rate	**STIBOR**	Stockholm Interbank Offered Rate
CDI	Brazil Interbank Deposit Rate	**JIBAR**	Johannesburg Interbank Agreed Rate	**TIIE**	Tasa de Interés Interbancaria de Equilibrio "Equilibrium Interbank Interest Rate"

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

Semiannual Report

June 30, 2016

PIMCO Variable Insurance Trust

PIMCO Low Duration Portfolio

Share Classes

- Institutional
- Administrative
- Advisor

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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, 2016. The following pages contain specific details about the Portfolio's investment performance and a discussion of the factors that most affected performance over the reporting period.

Outside of the reporting period, PIMCO announced on July 19, 2016 that the firm's Managing Directors have selected Emmanuel (Manny) Roman as PIMCO's next Chief Executive Officer. PIMCO's current CEO Douglas Hodge will assume a new role as Managing Director and Senior Advisor when Mr. Roman joins PIMCO on November 1st.

The announcement of Mr. Roman as PIMCO's CEO is the culmination of a process undertaken by the firm to hire a senior executive who would add leadership and strategic insights combined with a deep appreciation of PIMCO's diversified global businesses, investment process and focus on superior investment performance and client-service. Mr. Roman's appointment has the full support of the firm's leadership including Mr. Hodge, PIMCO's President Jay Jacobs, the firm's Executive Committee and its Managing Directors. Mr. Roman has nearly 30 years of experience in the investment industry, with expertise in fixed income and proven executive leadership, most recently as CEO of Man Group PLC, one of the world's largest publicly-traded alternative asset managers and a leader in liquid, high-alpha investment strategies.

Highlights of the financial markets during the six-month fiscal reporting period include:

- The first segment of the reporting period through mid-February 2016 was marked by ongoing concerns over the global impact of a slowdown in the Chinese economy, which drove commodity prices and inflation expectations generally lower. By March, a recovery in the price of oil and expectations of lower interest rates for longer supported a rally in risk assets. The Bank of Japan ("BOJ") and the People's Bank of China, for example, indicated their intent for further policy easing, with the BOJ resorting to a negative interest rate policy in February 2016. The European Central Bank ("ECB") also resorted to unconventional monetary policy with additional easing measures and an expansion of its quantitative easing program by shifting its focus toward domestic credit, pushing government sovereign yields into negative territory. In June 2016, the ECB began purchasing corporate bonds to help invigorate economic growth and stimulate inflation in the region.
- In the U.S., concerns regarding the global impact of tightening financial conditions and renewed U.S. dollar strength kept the Federal Reserve ("Fed") on hold at their June 2016 meeting, after having slightly raised interest rates at their December 2015 meeting. In addition, the U.S. dollar appreciated against most European and emerging market currencies, while falling against the Japanese yen. The U.S. interest rate yield curve flattened as the ten-year U.S. Treasury yield rallied to all-time lows and short-term interest rates rose with the initial Fed rate hike in December 2015. Revised first quarter 2016 U.S. gross domestic product ("GDP") data released in late June was marginally stronger as retail sales, housing and consumer sentiment data indicated an improving economy.
- Market movements and news headlines at the end of the reporting period were dominated by the unexpected outcome of the U.K. referendum on June 23, 2016. Initial investor reaction to the Brexit vote was largely "risk-off" as various assets re-priced to the surprise outcome, with U.S. Treasuries, the Japanese yen and gold headlining a safe-haven rally. However, aside from the Pound Sterling and European and Japanese equities, most asset classes generally recovered in the ensuing week as investors reassessed the impact of the Brexit vote on global growth expectations.
- U.S. Treasuries, as represented by the Barclays U.S. Treasury Index, returned 5.37% for the reporting period. Yields declined across the majority of the U.S. Treasury yield curve as a more dovish tone from the Fed coupled with the surprise result of the U.K. referendum pushed expectations for policy normalization further into the future. The benchmark ten-year U.S. Treasury note yielded 1.49% at the end of the reporting period, down from 2.27% on December 31, 2015. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 5.31% for the reporting period.
- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, returned 6.24% over the reporting period. U.S. real interest rates followed nominal yields sharply lower as concerns surrounding China's growth prospects early in the reporting period coupled with uncertainty over the U.K. referendum created a strong flight-to-quality bid and more tempered expectations for near-term Fed rate hikes.

Despite posting positive absolute returns, U.S. TIPS were outpaced by comparable nominal U.S. Treasuries as market-based inflation expectations ended the period lower. U.S. breakeven inflation rates were pressured lower by low headline inflation data and outsized demand for safe-haven nominal U.S. Treasuries.

- Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, returned 13.25% over the reporting period. Prices on broad commodities rebounded, led higher primarily by energy and precious metal prices. Crude oil prices rose markedly after reaching multi-year lows in January 2016, driven higher by strong demand and production outages. Within precious metals, gold prices were the beneficiary of strong safe-haven demand around risk-off events, particularly in June 2016 following the U.K.'s historic vote to leave the European Union. Agriculture commodity prices also advanced over the period, led by sugar prices which rallied on Brazilian rainfall, Indian import demand as well as strength in the Brazilian real.
- Agency mortgage-backed securities ("MBS"), as represented by the Barclays U.S. MBS Fixed Rate Index, returned 3.11% over the reporting period and underperformed like-duration U.S. Treasuries amid headwinds from heavy supply and refinancing concerns. Non-Agency MBS prices were higher and spreads tightened, as the sector continued to benefit from favorable technicals and stable fundamentals. Positive representation and warranty settlement developments also benefited the sector.
- U.S. investment grade credit, as represented by the Barclays U.S. Credit Index, returned 7.54% over the reporting period, as falling credit yields and a commodity-fueled rally drove returns over the reporting period. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index (USD Hedged), returned 8.02% over the reporting period. Strong performance from commodity sectors and risk-on sentiment drove returns, as asset sales and equity issuance strengthened balance sheets. Meanwhile, high yield bond mutual funds saw strong inflows, as investors continued to seek higher-yielding instruments.
- Emerging market ("EM") external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 10.90% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), returned 14.02% over the reporting period. The slowdown in China continued apace, though policymakers have used expanded credit availability and a gradual depreciation of the Chinese currency to soften the landing. Higher commodity prices and improving terms of trade helped EM currencies broadly gain during the reporting period.
- Global equity markets showed mixed performance amid a period marked by economic uncertainty, increased volatility and concerns around the U.K. referendum. U.S. equities, as represented by the S&P 500 Index, returned 3.84% over the reporting period. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 6.41% over the same period. In contrast, developed market equities outside the U.S., as represented by the MSCI EAFE Net Dividend Index (USD Unhedged), declined 4.42% over the reporting period.

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 and investment solution needs.

Sincerely,

Brent R. Harris

Brent R. Harris
Chairman of the Board,
PIMCO Variable Insurance Trust

August 22, 2016

Past performance is no guarantee of future results. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. It is not possible to invest directly in an unmanaged index.

Important Information About the PIMCO Low Duration Portfolio

PIMCO Variable Insurance Trust (the "Trust") is an open-end management investment company currently consisting of twenty separate investment portfolios, including the PIMCO Low Duration Portfolio (the "Portfolio"). The Portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies ("Variable Contracts"). Individuals may not purchase shares of the Portfolio directly. Shares of the Portfolio also may be sold to qualified pension and retirement plans outside of the separate account context.

We believe that bond funds have an important role to play in a well-diversified investment portfolio. It is important to note, however, that in an environment where interest rates may trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities and other instruments held by the Portfolio are likely to decrease in value. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). In addition, changes in interest rates can be sudden and unpredictable, and there is no guarantee that Fund management will anticipate such movement accurately. The Portfolio may lose money as a result of movements in interest rates.

As of the date of this report, interest rates in the U.S. and many parts of the world, including certain European countries, are 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 and has begun, and may continue, to raise interest rates. Further, while bond markets have steadily grown over the past three decades, dealer inventories of corporate bonds are near historic lows in relation to market size. As a result, there has been a significant reduction in the ability of dealers to "make markets."

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. All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets or negatively impact the Portfolio's performance or cause the Portfolio to incur losses. As a result, the Portfolio may experience increased shareholder redemptions, which, among other things, could further reduce the net assets of the Portfolio.

The Portfolio may be subject to various risks as described in the Portfolio's prospectus. 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 and other 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 an asset, instrument or component of the index underlying a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility for 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 (non-U.S.) 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 markets for lower-rated bonds. 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-related and asset-backed securities represent interests in "pools" of mortgages or other assets such as consumer loans or receivables. As a general matter, mortgage-related 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-related 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 Cumulative Returns chart reflects only Administrative Class performance. Performance for Institutional Class, Class M and Advisor Class shares, if applicable, may be higher or lower based on each class's expense ratios. The Portfolio's total annual operating expense ratios on the Portfolio Summary page are as of the currently effective prospectus, as supplemented to date. The Portfolio measures its performance against a broad-based securities market index ("benchmark index"). The benchmark index does not take into account fees, expenses, or taxes. The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

The following table discloses the inception dates of the Portfolio and its respective share classes along with the Portfolio's diversification status as of period end:

Portfolio Name	Portfolio Inception	Institutional Class	Class M	Administrative Class	Advisor Class	Diversification Status
PIMCO Low Duration Portfolio	02/16/99	04/10/00	—	02/16/99	03/31/06	Diversified

An investment in the Portfolio is not a bank deposit and is not guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. It is possible to lose money on investments in the Portfolio.

The Trustees are responsible generally for overseeing the management of the Trust. The Trustees authorize the Trust to enter into service agreements with the Adviser, the Distributor, the Administrator and other service providers in order to provide, and in some cases authorize service providers to procure through other parties, necessary or desirable services on behalf of the Trust and the Portfolio. Shareholders are not parties to or third-party beneficiaries of such service agreements. Neither this Portfolio's prospectus nor summary prospectus, the Trust's Statement of Additional Information ("SAI"), any contracts filed as exhibits to the Trust's registration statement, nor any other communications, disclosure documents or regulatory filings (including this report) from or on behalf of the Trust or the Portfolio creates a contract between or among any shareholder of the Portfolio, on the one hand, and the Trust, the Portfolio, a service provider to the Trust or the Portfolio, and/or the Trustees or officers of the Trust, on the other hand. The Trustees (or the Trust and its officers, service providers or other delegates acting under authority of the Trustees) may amend the most recent prospectus or use a new prospectus, summary prospectus or SAI with respect to the Portfolio or the Trust, and/or amend, file and/or issue any other communications, disclosure documents or regulatory filings, and may amend or enter into any contracts to which the Trust or the Portfolio is a party, and interpret the investment objective(s), policies, restrictions and contractual provisions applicable to the Portfolio, without shareholder input or approval, except in circumstances in which shareholder approval is specifically required by law (such as changes to fundamental investment policies) or where a shareholder approval requirement is specifically disclosed in the Trust's then-current prospectus or SAI.

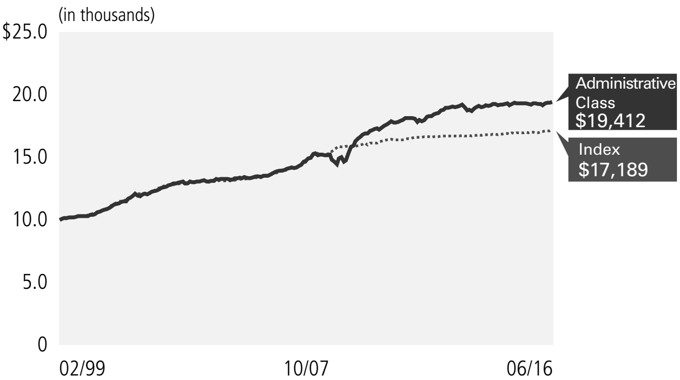
PIMCO has adopted written proxy voting policies and procedures ("Proxy Policy") as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. The Proxy Policy has been adopted by the Trust as the policies and procedures that PIMCO will use when voting proxies on behalf of the Portfolio. 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.

PIMCO Low Duration Portfolio

Cumulative Returns Through June 30, 2016



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown†

Corporate Bonds & Notes	36.5%
U.S. Treasury Obligations	19.4%
U.S. Government Agencies	19.3%
Asset-Backed Securities	9.0%
Non-Agency Mortgage-Backed Securities	6.0%
Short-Term Instruments‡	5.4%
Other	4.4%

† % of Investments, at value as of 06/30/2016. Financial derivative instruments, if any, are excluded.

‡ Includes Central Funds used for Cash Management Purposes.

Average Annual Total Return for the period ended June 30, 2016

		6 Months*	1 Year	5 Years	10 Years	Inception**
	PIMCO Low Duration Portfolio Institutional Class	1.03%	0.71%	1.55%	3.86%	4.06%
—	PIMCO Low Duration Portfolio Administrative Class	0.96%	0.56%	1.40%	3.70%	3.87%
	PIMCO Low Duration Portfolio Advisor Class	0.91%	0.46%	1.30%	3.60%	3.57%
·····	BofA Merrill Lynch 1-3 Year U.S. Treasury Index±	1.43%	1.31%	0.81%	2.46%	3.16%***

All Portfolio returns are net of fees and expenses.

* Cumulative return.

** For class inception dates please refer to the Important Information.

*** Average annual total return since 02/16/1999.

± The BofA Merrill Lynch 1-3 Year U.S. Treasury Index is an unmanaged index comprised of U.S. Treasury securities, other than inflation-protection securities and STRIPS, with at least $1 billion in outstanding face value and a remaining term to final maturity of at least one year and less than three years.

it is not possible to invest directly in an unmanaged index.

Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. The Portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in Variable Contracts, which will reduce returns. For performance current to the most recent month-end, visit http://pvit.pimco-funds.com.

The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented to date, is 0.51% for Institutional Class shares, 0.66% for Administrative Class shares, and 0.76% for Advisor Class shares.

Investment Objective and Strategy Overview

» 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

Following are key factors impacting the Portfolio's performance during the reporting period:

» An overweight to investment grade credit spread duration contributed to relative performance, as investment grade credit spreads generally tightened.

» An overweight to high-yield credit spread duration contributed to relative performance, as high-yield credit spreads generally tightened.

» An overweight to U.S. dollar-denominated emerging market spread duration positively contributed to relative performance, as emerging market spreads tightened.

» Short exposure to the Japanese yen detracted from relative performance, as the yen appreciated relative to the U.S. dollar.

» Underweight exposure to U.K. duration detracted from relative performance, as U.K. interest rates generally declined.

» An underweight to U.S. duration detracted from relative performance, as U.S. interest rates generally declined.

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 (if applicable), 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 from January 1, 2016 to June 30, 2016 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 rows, 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 appropriate column for your share class, in the column 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.

Expense ratios may vary period to period because of various factors, such as an increase in expenses that are not covered by the management fees such as fees and expenses of the independent trustees and their counsel, extraordinary expenses and interest expense.

	Actual			Hypothetical (5% return before expenses)			
	Beginning Account Value (01/01/16)	Ending Account Value (06/30/16)	Expenses Paid During Period*	Beginning Account Value (01/01/16)	Ending Account Value (06/30/16)	Expenses Paid During Period*	Net Annualized Expense Ratio**
Institutional Class	$ 1,000.00	$ 1,010.30	$ 2.46	$ 1,000.00	$ 1,022.01	$ 2.47	0.50%
Administrative Class	1,000.00	1,009.60	3.19	1,000.00	1,021.27	3.21	0.65
Advisor Class	1,000.00	1,009.10	3.68	1,000.00	1,020.79	3.71	0.75

* 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 179/366 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.

** Net Annualized Expense Ratio is reflective of any applicable contractual fee waivers and/or expense reimbursements or voluntary fee waivers. Details regarding fee waivers can be found in Note 8 in the Notes to Financial Statements.

Selected Per Share Data for the Year or Period Ended:	Net Asset Value Beginning of Year or Period	Net Investment Income[(a)]	Net Realized/ Unrealized Gain (Loss)	Total from Investment Operations	Dividends from Net Investment Income	Total Distributions[(b)]
Institutional Class						
01/01/2016 - 06/30/2016+	$ 10.25	$ 0.08	$ 0.03	$ 0.11	$ (0.09)	$ (0.09)
12/31/2015	10.58	0.15	(0.10)	0.05	(0.38)	(0.38)
12/31/2014	10.61	0.10	0.01	0.11	(0.14)	(0.14)
12/31/2013	10.78	0.10	(0.10)	0.00	(0.17)	(0.17)
12/31/2012	10.38	0.15	0.47	0.62	(0.22)	(0.22)
12/31/2011	10.44	0.16	(0.03)	0.13	(0.19)	(0.19)
Administrative Class						
01/01/2016 - 06/30/2016+	10.25	0.07	0.03	0.10	(0.08)	(0.08)
12/31/2015	10.58	0.14	(0.11)	0.03	(0.36)	(0.36)
12/31/2014	10.61	0.10	(0.01)	0.09	(0.12)	(0.12)
12/31/2013	10.78	0.08	(0.09)	(0.01)	(0.16)	(0.16)
12/31/2012	10.38	0.14	0.46	0.60	(0.20)	(0.20)
12/31/2011	10.44	0.14	(0.02)	0.12	(0.18)	(0.18)
Advisor Class						
01/01/2016 - 06/30/2016+	10.25	0.06	0.03	0.09	(0.07)	(0.07)
12/31/2015	10.58	0.13	(0.11)	0.02	(0.35)	(0.35)
12/31/2014	10.61	0.09	(0.01)	0.08	(0.11)	(0.11)
12/31/2013	10.78	0.07	(0.10)	(0.03)	(0.14)	(0.14)
12/31/2012	10.38	0.13	0.46	0.59	(0.19)	(0.19)
12/31/2011	10.44	0.13	(0.02)	0.11	(0.17)	(0.17)

\+ Unaudited

* Annualized

[(a)] Per share amounts based on average number of shares outstanding during the year or period.

[(b)] The tax characterization of distributions is determined in accordance with federal income tax regulations. The actual tax characterization of distributions paid are determined at the end of the fiscal year. See Note 2(d) in the Notes to Financial Statements for more information.

Net Asset Value End of Year or Period	Total Return	Net Assets End of Year or Period (000s)	Ratio of Expenses to Average Net Assets	Ratio of Expenses to Average Net Assets Excluding Interest Expense	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
$ 10.27	1.03%	$ 8,754	0.50%*	0.50%*	1.62%*	159%
10.25	0.47	8,291	0.51	0.50	1.39	181
10.58	1.00	13,590	0.50	0.50	0.96	208
10.61	0.01	58,621	0.50	0.50	0.95	316
10.78	6.01	54,192	0.50	0.50	1.45	647
10.38	1.26	63,047	0.50	0.50	1.52	456
10.27	0.96	1,284,182	0.65*	0.65*	1.39*	159
10.25	0.31	1,323,009	0.66	0.65	1.32	181
10.58	0.85	1,481,605	0.65	0.65	0.90	208
10.61	(0.14)	1,510,077	0.65	0.65	0.79	316
10.78	5.85	1,527,088	0.65	0.65	1.29	647
10.38	1.11	1,326,770	0.65	0.65	1.37	456
10.27	0.91	682,779	0.75*	0.75*	1.29*	159
10.25	0.21	677,728	0.76	0.75	1.25	181
10.58	0.75	647,468	0.75	0.75	0.80	208
10.61	(0.23)	617,374	0.75	0.75	0.69	316
10.78	5.75	532,901	0.75	0.75	1.18	647
10.38	1.01	388,854	0.75	0.75	1.27	456

Statement of Assets and Liabilities PIMCO Low Duration Portfolio

(Unaudited)

(Amounts in thousands, except per share amounts)	June 30, 2016
Assets:	
Investments, at value	
Investments in securities*	$ 2,441,245
Investments in Affiliates	8,033
Financial Derivative Instruments	
Exchange-traded or centrally cleared	923
Over the counter	21,270
Cash	9
Deposits with counterparty	1,748
Foreign currency, at value	3,128
Receivable for investments sold	23,552
Receivable for TBA investments sold	428,565
Receivable for Portfolio shares sold	2,914
Interest and/or dividends receivable	6,035
Dividends receivable from Affiliates	22
Total Assets	2,937,444
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for reverse repurchase agreements	$ 58,001
Payable for short sales	4,094
Financial Derivative Instruments	
Exchange-traded or centrally cleared	573
Over the counter	20,955
Payable for investments purchased	10,699
Payable for investments in Affiliates purchased	22
Payable for TBA investments purchased	847,726
Deposits from counterparty	13,698
Payable for Portfolio shares redeemed	4,856
Accrued investment advisory fees	404
Accrued supervisory and administrative fees	404
Accrued distribution fees	139
Accrued servicing fees	158
Total Liabilities	961,729
Net Assets	$ 1,975,715
Net Assets Consist of:	
Paid in capital	$ 2,037,472
(Overdistributed) net investment income	(18,878)
Accumulated undistributed net realized (loss)	(33,203)
Net unrealized (depreciation)	(9,676)
Net Assets	$ 1,975,715
Net Assets:	
Institutional Class	$ 8,754
Administrative Class	1,284,182
Advisor Class	682,779
Shares Issued and Outstanding:	
Institutional Class	852
Administrative Class	124,997
Advisor Class	66,458
Net Asset Value Per Share Outstanding:	
Institutional Class	$ 10.27
Administrative Class	10.27
Advisor Class	10.27
Cost of investments in securities	$ 2,446,526
Cost of investments in Affiliates	$ 8,033
Cost of foreign currency held	$ 3,089
Proceeds received on short sales	$ 4,083
Cost or premiums of financial derivative instruments, net	$ (736)
* Includes repurchase agreements of:	$ 1,677

Statement of Operations PIMCO Low Duration Portfolio

(Amounts in thousands)	Six Months Ended June 30, 2016 (Unaudited)
Investment Income:	
Interest	$ 19,629
Dividends from Investments in Affiliates	199
Total Income	19,828
Expenses:	
Investment advisory fees	2,425
Supervisory and administrative fees	2,425
Servicing fees - Administrative Class	953
Distribution and/or servicing fees - Advisor Class	828
Trustee fees	11
Interest expense	41
Total Expenses	6,683
Net Investment Income	13,145
Net Realized Gain (Loss):	
Investments in securities	(4,989)
Investments in Affiliates	(397)
Exchange-traded or centrally cleared financial derivative instruments	(15,355)
Over the counter financial derivative instruments	20,554
Foreign currency	(2,237)
Net Realized (Loss)	(2,424)
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	33,460
Investments in Affiliates	464
Exchange-traded or centrally cleared financial derivative instruments	730
Over the counter financial derivative instruments	(27,161)
Foreign currency assets and liabilities	148
Net Change in Unrealized Appreciation	7,641
Net Increase in Net Assets Resulting from Operations	$ 18,362

Statements of Changes in Net Assets PIMCO Low Duration Portfolio

(Amounts in thousands)	Six Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2015
(Decrease) in Net Assets from:		
Operations:		
Net investment income	$ 13,145	$ 26,354
Net realized (loss)	(2,424)	(20,963)
Net change in unrealized appreciation	7,641	2,116
Net Increase in Net Assets Resulting from Operations	18,362	7,507
Distributions to Shareholders:		
From net investment income		
Institutional Class	(63)	(308)
Administrative Class	(9,842)	(45,888)
Advisor Class	(4,819)	(22,510)
Total Distributions[(a)]	(14,724)	(68,706)
Portfolio Share Transactions:		
Net (decrease) resulting from Portfolio share transactions**	(36,951)	(72,436)
Total (Decrease) in Net Assets	(33,313)	(133,635)
Net Assets:		
Beginning of period	2,009,028	2,142,663
End of period*	$ 1,975,715	$ 2,009,028
* Including (overdistributed) net investment income of:	$ (18,878)	$ (17,299)

** See Note12 in the Notes to Financial Statements.

(a) The tax characterization of distributions is determined in accordance with federal income tax regulations. The actual tax characterization of distributions paid are determined at the end of the fiscal year. See Note 2(d) in the Notes to Financial Statements for more information.

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 123.6%		
BANK LOAN OBLIGATIONS 0.1%		
FCA US LLC		
3.500% due 05/24/2017	$ 1,730	$ 1,732
Total Bank Loan Obligations (Cost $1,733)		1,732
CORPORATE BONDS & NOTES 45.3%		
BANKING & FINANCE 29.3%		
ABN AMRO Bank NV		
1.800% due 06/04/2018	4,300	4,338
AerCap Ireland Capital Ltd.		
2.750% due 05/15/2017	3,800	3,822
Ally Financial, Inc.		
2.750% due 01/30/2017	6,360	6,417
3.500% due 07/18/2016	3,400	3,404
6.250% due 12/01/2017	2,000	2,100
American Tower Corp.		
2.800% due 06/01/2020	9,900	10,141
AvalonBay Communities, Inc.		
3.625% due 10/01/2020	3,000	3,205
Banco Espirito Santo S.A.		
2.625% due 05/08/2017 ^	EUR 3,500	1,068
Bank of America Corp.		
1.413% due 09/15/2026	$ 900	769
2.053% due 04/19/2021	5,900	5,982
2.650% due 04/01/2019	1,200	1,231
5.650% due 05/01/2018	8,000	8,577
6.875% due 11/15/2018	2,700	3,007
Bank of America N.A.		
0.953% due 06/15/2017	23,900	23,825
Bank of Nova Scotia		
1.875% due 04/26/2021	6,800	6,859
BB&T Corp.		
1.343% due 01/15/2020	5,100	5,063
Bear Stearns Cos. LLC		
6.400% due 10/02/2017	1,500	1,594
BPCE S.A.		
1.196% due 11/18/2016	7,200	7,207
1.252% due 06/23/2017	400	400
1.382% due 03/06/2017	GBP 2,300	3,067
1.625% due 02/10/2017	$ 2,100	2,105
CIT Group, Inc.		
3.875% due 02/19/2019	600	604
4.250% due 08/15/2017	7,200	7,351
5.000% due 05/15/2017	9,700	9,870
Citigroup, Inc.		
1.324% due 04/27/2018	18,200	18,192
1.518% due 07/30/2018	12,000	12,038
1.800% due 02/05/2018	2,500	2,512
2.011% due 03/30/2021	4,300	4,331
Citizens Bank N.A.		
2.300% due 12/03/2018	3,600	3,649
2.500% due 03/14/2019	4,000	4,060
Commonwealth Bank of Australia		
1.750% due 11/02/2018	1,800	1,814
Credit Agricole S.A.		
1.628% due 06/10/2020	11,700	11,686
Credit Suisse Group Funding Guernsey Ltd.		
2.923% due 04/16/2021	5,800	5,851
Deutsche Bank AG		
2.538% due 05/10/2019	6,300	6,365
Dexia Credit Local S.A.		
1.012% due 11/07/2016	4,500	4,501
Eksportfinans ASA		
1.570% due 02/14/2018	JPY 500,000	4,832
5.500% due 06/26/2017	$ 4,500	4,663
Ford Motor Credit Co. LLC		
1.082% due 11/08/2016	7,500	7,503
1.553% due 06/15/2018	6,000	5,998
1.567% due 11/04/2019	5,500	5,406
2.211% due 01/08/2019	5,600	5,688
2.375% due 01/16/2018	5,224	5,290
3.000% due 06/12/2017	$ 2,700	$ 2,739
5.750% due 02/01/2021	600	683
8.000% due 12/15/2016	2,600	2,679
General Motors Financial Co., Inc.		
1.989% due 04/10/2018	4,600	4,616
2.188% due 01/15/2020	3,900	3,864
2.688% due 01/15/2019	5,500	5,599
3.000% due 09/25/2017	5,000	5,076
3.200% due 07/13/2020	7,000	7,099
4.750% due 08/15/2017	2,000	2,064
Goldman Sachs Group, Inc.		
1.726% due 11/15/2018	1,292	1,296
1.798% due 04/23/2020	15,200	15,164
1.838% due 04/30/2018	8,200	8,245
1.853% due 09/15/2020	4,500	4,494
2.274% due 11/29/2023	1,700	1,702
6.000% due 06/15/2020	2,000	2,284
7.500% due 02/15/2019	700	800
HBOS PLC		
1.331% due 09/30/2016	4,155	4,155
HSBC Bank PLC		
1.266% due 05/15/2018	500	498
HSBC USA, Inc.		
1.237% due 11/13/2019	12,900	12,746
Hutchison Whampoa International Ltd.		
1.625% due 10/31/2017	7,000	7,036
Industrial Bank of Korea		
2.375% due 07/17/2017	2,200	2,226
3.750% due 09/29/2016	3,400	3,424
ING Bank NV		
2.050% due 08/17/2018	4,000	4,057
International Lease Finance Corp.		
6.250% due 05/15/2019	2,250	2,430
Intesa Sanpaolo SpA		
2.375% due 01/13/2017	9,400	9,436
JPMorgan Chase & Co.		
1.072% due 05/30/2017	GBP 6,300	8,343
1.183% due 03/01/2018	$ 3,000	3,002
1.593% due 01/23/2020	4,100	4,112
1.843% due 10/29/2020	5,800	5,864
JPMorgan Chase Bank N.A.		
6.000% due 10/01/2017	1,000	1,056
KEB Hana Bank		
4.000% due 11/03/2016	1,600	1,616
Kookmin Bank		
1.509% due 01/27/2017	10,000	10,004
LeasePlan Corp. NV		
2.500% due 05/16/2018	300	300
3.000% due 10/23/2017	1,200	1,209
Lloyds Bank PLC		
1.176% due 05/14/2018	8,000	7,947
2.000% due 08/17/2018	6,900	6,894
Macquarie Bank Ltd.		
1.758% due 07/29/2020	8,900	8,867
Metropolitan Life Global Funding		
1.300% due 04/10/2017	3,600	3,612
Mitsubishi UFJ Financial Group, Inc.		
2.553% due 03/01/2021	1,300	1,339
Morgan Stanley		
2.012% due 02/01/2019	9,600	9,711
MUFG Americas Holdings Corp.		
1.202% due 02/09/2018	3,500	3,487
MUFG Union Bank N.A.		
1.033% due 05/05/2017	6,600	6,600
Navient Corp.		
8.780% due 09/15/2016	MXN 49,700	2,729
Pacific Life Global Funding		
3.142% due 06/02/2018	$ 3,500	3,455
Piper Jaffray Cos.		
5.060% due 10/09/2018	1,500	1,516
Realkredit Danmark A/S		
1.000% due 04/01/2017	DKK 71,100	10,715
2.000% due 04/01/2017	287,800	43,695
Royal Bank of Scotland PLC		
6.934% due 04/09/2018	EUR 2,735	$ 3,287
Santander Bank N.A.		
1.561% due 01/12/2018	$ 6,200	6,167
Santander Holdings USA, Inc.		
2.115% due 11/24/2017	3,200	3,200
2.700% due 05/24/2019	3,400	3,411
Springleaf Finance Corp.		
6.500% due 09/15/2017	4,900	5,071
Sumitomo Mitsui Banking Corp.		
1.213% due 01/16/2018	12,300	12,277
Synchrony Financial		
1.867% due 02/03/2020	5,600	5,428
2.032% due 11/09/2017	2,800	2,802
UBS AG		
1.233% due 06/01/2017	6,500	6,503
1.375% due 08/14/2017	3,000	3,003
UBS Group Funding Jersey Ltd.		
2.409% due 04/14/2021	9,900	10,011
Unibail-Rodamco SE		
1.403% due 04/16/2019	9,800	9,751
WEA Finance LLC		
1.750% due 09/15/2017	1,000	1,003
Wells Fargo & Co.		
1.515% due 07/22/2020	2,000	2,007
2.020% due 03/04/2021	7,900	8,065
		578,856
INDUSTRIALS 11.7%		
Actavis Funding SCS		
1.736% due 03/12/2018	1,700	1,707
1.911% due 03/12/2020	5,300	5,319
2.450% due 06/15/2019	300	305
Actavis, Inc.		
1.875% due 10/01/2017	2,800	2,815
Adani Ports & Special Economic Zone Ltd.		
3.500% due 07/29/2020	4,300	4,284
Aetna, Inc.		
1.307% due 12/08/2017	3,900	3,907
Amgen, Inc.		
2.125% due 05/15/2017	3,695	3,727
2.200% due 05/22/2019	2,700	2,771
Anheuser-Busch InBev Finance, Inc.		
1.900% due 02/01/2019	4,200	4,274
2.650% due 02/01/2021	3,400	3,527
BAT International Finance PLC		
1.850% due 06/15/2018	1,600	1,618
Becton Dickinson and Co.		
1.800% due 12/15/2017	2,100	2,118
2.675% due 12/15/2019	900	926
Boston Scientific Corp.		
2.850% due 05/15/2020	2,800	2,904
5.125% due 01/12/2017	1,500	1,529
Canadian Natural Resources Ltd.		
1.750% due 01/15/2018	1,200	1,190
Cardinal Health, Inc.		
1.950% due 06/15/2018	1,000	1,012
Charter Communications Operating LLC		
3.579% due 07/23/2020	3,700	3,872
4.464% due 07/23/2022	600	647
ConocoPhillips Co.		
1.526% due 05/15/2022	3,500	3,324
Cox Communications, Inc.		
9.375% due 01/15/2019	400	466
Daimler Finance North America LLC		
1.008% due 03/10/2017	11,400	11,400
1.106% due 03/02/2018	2,700	2,688
2.000% due 08/03/2018	6,000	6,079
2.375% due 08/01/2018	900	919
Diamond 1 Finance Corp.		
3.480% due 06/01/2019	10,200	10,456
DISH DBS Corp.		
4.625% due 07/15/2017	4,700	4,794

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Dominion Gas Holdings LLC		
2.500% due 12/15/2019	$ 2,300	$ 2,354
Energy Transfer Partners LP		
6.700% due 07/01/2018	2,800	2,981
Georgia-Pacific LLC		
2.539% due 11/15/2019	4,400	4,510
5.400% due 11/01/2020	2,400	2,721
Hellenic Railways Organization S.A.		
4.028% due 03/17/2017	EUR 1,300	1,383
4.500% due 12/06/2016	JPY 109,000	1,024
Hewlett Packard Enterprise Co.		
2.394% due 10/05/2017	$ 4,100	4,144
2.450% due 10/05/2017	5,900	5,978
Humana, Inc.		
7.200% due 06/15/2018	1,200	1,329
Hyundai Capital America		
1.450% due 02/06/2017	950	951
Imperial Tobacco Finance PLC		
2.050% due 02/11/2018	1,250	1,262
Kinder Morgan Energy Partners LP		
2.650% due 02/01/2019	500	500
9.000% due 02/01/2019	300	342
Kinder Morgan, Inc.		
2.000% due 12/01/2017	1,500	1,493
3.050% due 12/01/2019	4,000	4,045
7.000% due 06/15/2017	1,500	1,563
7.250% due 06/01/2018	400	433
KLA-Tencor Corp.		
2.375% due 11/01/2017	500	504
3.375% due 11/01/2019	150	155
Korea National Oil Corp.		
4.000% due 10/27/2016	7,200	7,276
Kraft Heinz Foods Co.		
2.000% due 07/02/2018	2,300	2,333
Kroger Co.		
1.163% due 10/17/2016	5,600	5,604
Medtronic, Inc.		
1.375% due 04/01/2018	2,900	2,919
1.453% due 03/15/2020	6,300	6,362
Merck & Co., Inc.		
1.005% due 02/10/2020	5,700	5,705
Merck Sharp & Dohme Corp.		
5.000% due 06/30/2019	1,400	1,556
Newell Brands, Inc.		
2.600% due 03/29/2019	1,500	1,540
Nissan Motor Acceptance Corp.		
1.800% due 03/15/2018	200	202
1.950% due 09/12/2017	400	403
2.350% due 03/04/2019	200	204
Oracle Corp.		
1.900% due 09/15/2021 (b)	9,900	9,946
Pearson Dollar Finance PLC		
6.250% due 05/06/2018	600	643
Pioneer Natural Resources Co.		
6.875% due 05/01/2018	300	325
QUALCOMM, Inc.		
3.000% due 05/20/2022	4,600	4,859
Reynolds American, Inc.		
2.300% due 06/12/2018	1,800	1,830
Sabine Pass LNG LP		
7.500% due 11/30/2016	2,500	2,549
SABMiller Holdings, Inc.		
2.200% due 08/01/2018	1,300	1,322
2.450% due 01/15/2017	500	503
3.750% due 01/15/2022	200	215
SABMiller PLC		
6.500% due 07/15/2018	300	329
Southern Natural Gas Co. LLC		
5.900% due 04/01/2017	300	308
Southwestern Energy Co.		
3.300% due 01/23/2018	700	719
Telefonica Emisiones S.A.U.		
1.292% due 06/23/2017	13,000	12,985

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Thermo Fisher Scientific, Inc.		
1.300% due 02/01/2017	$ 7,000	$ 7,006
Time Warner Cable, Inc.		
5.850% due 05/01/2017	700	725
6.750% due 07/01/2018	1,900	2,085
8.750% due 02/14/2019	1,100	1,285
UnitedHealth Group, Inc.		
1.400% due 12/15/2017	1,000	1,006
1.450% due 07/17/2017	1,800	1,809
1.900% due 07/16/2018	1,800	1,830
Volkswagen Group of America Finance LLC		
1.076% due 11/20/2017	7,500	7,424
1.250% due 05/23/2017	1,500	1,496
2.450% due 11/20/2019	4,200	4,275
Walgreens Boots Alliance, Inc.		
1.750% due 11/17/2017	1,700	1,713
WestRock RKT Co.		
4.450% due 03/01/2019	400	423
Whirlpool Corp.		
1.650% due 11/01/2017	1,100	1,107
Woodside Finance Ltd.		
3.650% due 03/05/2025	950	930
		230,001
UTILITIES 4.3%		
AES Corp.		
3.673% due 06/01/2019	196	196
AT&T, Inc.		
1.051% due 03/30/2017	6,800	6,804
1.561% due 06/30/2020	12,300	12,259
3.000% due 06/30/2022	500	513
Consumers Energy Co.		
6.700% due 09/15/2019	200	233
Dayton Power & Light Co.		
1.875% due 09/15/2016	1,000	1,001
DTE Energy Co.		
2.400% due 12/01/2019	3,700	3,781
Exelon Corp.		
1.550% due 06/09/2017	900	902
Kinder Morgan Finance Co. LLC		
6.000% due 01/15/2018	1,500	1,579
KT Corp.		
1.750% due 04/22/2017	3,700	3,711
Orange S.A.		
2.750% due 09/14/2016	2,500	2,510
Petrobras Global Finance BV		
4.875% due 03/17/2020	4,400	4,136
Plains All American Pipeline LP		
8.750% due 05/01/2019	700	801
Sprint Communications, Inc.		
9.125% due 03/01/2017	14,800	15,307
Verizon Communications, Inc.		
1.426% due 06/17/2019	1,500	1,508
2.183% due 09/15/2016	3,400	3,409
2.406% due 09/14/2018	21,300	21,839
2.550% due 06/17/2019	4,655	4,826
		85,315
Total Corporate Bonds & Notes (Cost $897,693)		**894,172**
MUNICIPAL BONDS & NOTES 0.6%		
CALIFORNIA 0.6%		
University of California Revenue Bonds, Series 2011		
0.957% due 07/01/2041	10,600	10,601
TEXAS 0.0%		
North Texas Higher Education Authority, Inc. Revenue Bonds, Series 2011		
1.725% due 04/01/2040	314	309
Total Municipal Bonds & Notes (Cost $10,920)		**10,910**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
U.S. GOVERNMENT AGENCIES 24.0%		
Fannie Mae		
0.513% due 12/25/2036 - 07/25/2037	$ 501	$ 491
0.803% due 09/25/2042 - 03/25/2044	385	383
0.953% due 12/25/2022	42	42
1.000% due 01/25/2043	358	341
1.253% due 04/25/2023	45	46
1.303% due 02/25/2023	2	2
1.346% due 06/17/2027	28	29
1.353% due 05/25/2022	4	4
1.610% due 07/01/2042 - 06/01/2043	288	293
1.660% due 09/01/2041	191	195
1.810% due 09/01/2040	1	1
2.257% due 11/01/2035	48	50
2.294% due 09/01/2035	289	306
2.514% due 07/01/2035	53	56
2.672% due 05/01/2038	4,608	4,875
4.323% due 12/01/2036	15	15
4.500% due 03/01/2018 - 01/01/2027	4,135	4,356
4.650% due 09/01/2034	8	9
5.000% due 05/01/2027 - 04/25/2033	226	251
5.500% due 12/01/2027 - 12/01/2028	754	848
5.651% due 12/25/2042	7	9
6.000% due 03/01/2017 - 01/01/2039	2,840	3,254
6.500% due 04/01/2036	115	133
Fannie Mae, TBA		
3.000% due 07/01/2046 - 08/01/2046	105,000	108,783
3.500% due 07/01/2046 - 08/01/2046	28,000	29,525
4.000% due 08/01/2046	133,000	142,458
4.500% due 08/01/2046	132,000	144,017
FDIC Structured Sale Guaranteed Notes		
2.980% due 12/06/2020	1,242	1,263
Federal Housing Administration		
7.430% due 10/01/2020	1	1
Freddie Mac		
0.493% due 12/25/2036	611	608
0.713% due 08/25/2031	124	121
0.842% due 06/15/2018	4	4
1.610% due 02/25/2045	255	262
2.000% due 11/15/2026	8,172	8,309
2.521% due 09/01/2035	355	378
2.702% due 07/01/2035	121	129
5.000% due 05/01/2024 - 12/01/2041	564	625
5.500% due 12/01/2022 - 08/15/2030	1	1
6.500% due 07/25/2043	53	64
8.973% due 08/15/2044	5,124	6,304
Ginnie Mae		
0.896% due 06/20/2065	3,897	3,867
0.956% due 10/20/2065	10,776	10,703
1.857% due 02/20/2041	631	634
6.000% due 09/15/2017	114	116
Total U.S. Government Agencies (Cost $472,697)		**474,161**
U.S. TREASURY OBLIGATIONS 24.0%		
U.S. Treasury Inflation Protected Securities (f)		
0.125% due 04/15/2018 (h)	234,607	238,194
0.125% due 04/15/2019 (j)(l)	118,428	120,985
0.125% due 04/15/2020	24,619	25,199
0.125% due 04/15/2021	40,576	41,610
0.625% due 07/15/2021	22,714	23,936
0.750% due 02/15/2042 (l)	1,906	1,915
1.125% due 01/15/2021 (j)(l)	10,389	11,123
1.250% due 07/15/2020 (j)(l)	4,168	4,484
1.375% due 02/15/2044 (l)	5,851	6,781
Total U.S. Treasury Obligations (Cost $470,904)		**474,227**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
NON-AGENCY MORTGAGE-BACKED SECURITIES 7.4%		
Adjustable Rate Mortgage Trust		
3.110% due 09/25/2035	$ 919	$ 763
Aire Valley Mortgages PLC		
0.867% due 09/20/2066	1,907	1,860
American Home Mortgage Investment Trust		
2.730% due 10/25/2034	156	157
2.978% due 02/25/2045	136	136
Banc of America Commercial Mortgage Trust		
5.739% due 04/10/2049	2,487	2,536
Banc of America Funding Trust		
0.733% due 07/25/2037	1,021	865
3.017% due 01/20/2047 ^	412	348
Banc of America Mortgage Trust		
2.858% due 08/25/2034	1,769	1,751
3.112% due 07/25/2034	620	630
3.361% due 05/25/2033	352	356
6.500% due 10/25/2031	6	6
BCAP LLC Trust		
0.335% due 09/26/2035	10	10
Bear Stearns Adjustable Rate Mortgage Trust		
2.460% due 08/25/2035	913	912
2.797% due 04/25/2033	4	4
2.924% due 03/25/2035	1,109	1,119
2.972% due 01/25/2034	18	18
2.977% due 01/25/2035	3,361	3,281
3.188% due 01/25/2035	154	150
3.226% due 02/25/2033	1	1
3.311% due 07/25/2034	239	231
Bear Stearns ALT-A Trust		
0.613% due 02/25/2034	394	347
Bear Stearns Commercial Mortgage Securities Trust		
5.331% due 02/11/2044	301	306
Bear Stearns Structured Products, Inc. Trust		
2.690% due 12/26/2046	544	406
2.878% due 01/26/2036	924	726
Chevy Chase Funding LLC Mortgage-Backed Certificates		
0.733% due 01/25/2035	69	62
Citigroup Commercial Mortgage Trust		
5.901% due 12/10/2049	3,500	3,603
6.345% due 12/10/2049	761	792
Citigroup Global Markets Mortgage Securities, Inc.		
7.000% due 12/25/2018	6	6
Citigroup Mortgage Loan Trust, Inc.		
2.861% due 08/25/2035 ^	557	419
3.040% due 05/25/2035	137	135
Citigroup/Deutsche Bank Commercial Mortgage Trust		
5.289% due 12/11/2049	11,409	11,579
Countrywide Alternative Loan Trust		
0.633% due 05/25/2047	429	343
6.000% due 10/25/2033	11	12
Countrywide Home Loan Mortgage Pass-Through Trust		
2.602% due 02/20/2036 ^	416	367
2.674% due 11/25/2034	524	497
2.693% due 11/20/2034	1,068	1,021
2.823% due 02/20/2035	727	726
Credit Suisse Commercial Mortgage Trust		
5.297% due 12/15/2039	3,238	3,257
5.448% due 01/15/2049	10	10
Credit Suisse First Boston Mortgage Securities Corp.		
1.054% due 03/25/2032	1	1
Credit Suisse Mortgage Capital Certificates		
2.795% due 09/27/2036	2,286	2,281
2.846% due 09/26/2047	481	479
Deutsche Mortgage Securities, Inc. Re-REMIC Trust Certificates		
3.055% due 06/26/2035	185	183
Eurosail PLC		
0.044% due 12/10/2044	EUR 146	156
1.276% due 09/13/2045	GBP 812	1,064
1.524% due 06/13/2045	9,300	11,471
Extended Stay America Trust		
2.958% due 12/05/2031	$ 395	397

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
First Horizon Alternative Mortgage Securities Trust		
2.426% due 09/25/2034	$ 1,021	$ 994
First Horizon Mortgage Pass-Through Trust		
2.804% due 02/25/2035	2,034	2,018
2.929% due 08/25/2035	267	234
GE Commercial Mortgage Corp. Trust		
5.483% due 12/10/2049	6,424	6,528
GMAC Mortgage Corp. Loan Trust		
3.006% due 11/19/2035	215	194
Great Hall Mortgages PLC		
0.777% due 06/18/2039	2,002	1,821
Greenwich Capital Commercial Funding Corp. Trust		
5.444% due 03/10/2039	1,585	1,600
GS Mortgage Securities Corp.		
2.465% due 11/10/2045 (a)	2,830	255
GS Mortgage Securities Corp. Trust		
3.980% due 02/10/2029	5,000	5,253
GS Mortgage Securities Trust		
5.560% due 11/10/2039	1,133	1,136
GSR Mortgage Loan Trust		
2.876% due 09/25/2035	603	607
2.908% due 09/25/2034	146	139
HarborView Mortgage Loan Trust		
0.668% due 05/19/2035	113	94
3.073% due 07/19/2035	572	498
Hercules Eclipse PLC		
0.831% due 10/25/2018	GBP 2,230	2,928
Hilton USA Trust		
1.463% due 11/05/2030	$ 1,813	1,811
Impac CMB Trust		
1.453% due 07/25/2033	146	139
Infinity Classico		
0.011% due 02/15/2024	EUR 739	810
JPMorgan Chase Commercial Mortgage Securities Trust		
2.189% due 10/15/2045 (a)	$ 21,398	1,637
5.257% due 05/15/2047	2,721	2,739
5.397% due 05/15/2045	196	195
5.420% due 01/15/2049	539	547
5.794% due 02/12/2051	3,623	3,762
5.882% due 02/15/2051	1,300	1,343
JPMorgan Commercial Mortgage-Backed Securities Trust		
5.702% due 03/18/2051	1,751	1,763
JPMorgan Mortgage Trust		
5.750% due 01/25/2036 ^	24	21
Juno Eclipse Ltd.		
0.376% due 11/20/2022	EUR 1,338	1,465
LB-UBS Commercial Mortgage Trust		
5.342% due 09/15/2039	$ 1,011	1,013
MASTR Asset Securitization Trust		
5.500% due 09/25/2033	5	5
Merrill Lynch Mortgage Investors Trust		
0.703% due 11/25/2035	167	154
1.113% due 09/25/2029	1,056	1,048
1.457% due 10/25/2035	99	94
Merrill Lynch/Countrywide Commercial Mortgage Trust		
5.485% due 03/12/2051	2,700	2,744
Morgan Stanley Capital Trust		
5.665% due 04/15/2049	9,750	10,007
PHHMC Trust		
5.597% due 07/18/2035	632	633
Prime Mortgage Trust		
0.853% due 02/25/2034	8	8
Residential Funding Mortgage Securities, Inc. Trust		
3.154% due 09/25/2035 ^	916	701
RFTI Issuer Ltd.		
2.192% due 08/15/2030	10,000	9,990
Structured Adjustable Rate Mortgage Loan Trust		
1.810% due 01/25/2035	283	221
2.805% due 08/25/2034	380	376
2.826% due 08/25/2035	240	224
2.830% due 02/25/2034	279	277

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Structured Asset Mortgage Investments Trust		
0.733% due 02/25/2036 ^	$ 160	$ 131
1.108% due 09/19/2032	3	3
Ulysses European Loan Conduit PLC		
0.751% due 07/25/2017	GBP 2,700	3,500
Wachovia Bank Commercial Mortgage Trust		
0.656% due 04/15/2047	$ 9,800	9,717
5.749% due 07/15/2045	1,235	1,234
WaMu Mortgage Pass-Through Certificates Trust		
0.723% due 12/25/2045	124	115
1.133% due 01/25/2045	849	774
1.167% due 01/25/2047	313	282
1.637% due 11/25/2042	50	46
1.800% due 08/25/2042	118	113
1.837% due 06/25/2042	29	28
Washington Mutual Mortgage Loan Trust		
1.606% due 05/25/2041	5	5
Wells Fargo Commercial Mortgage Trust		
2.199% due 10/15/2045 (a)	4,692	379
Wells Fargo Mortgage-Backed Securities Trust		
2.841% due 01/25/2035	364	366
2.842% due 03/25/2035	235	237
2.853% due 12/25/2034	300	295
2.855% due 03/25/2036	324	318
2.900% due 09/25/2034	5,136	5,233
Total Non-Agency Mortgage-Backed Securities (Cost $153,040)		**146,582**
ASSET-BACKED SECURITIES 11.1%		
ACE Securities Corp. Home Equity Loan Trust		
0.513% due 10/25/2036	111	61
1.353% due 12/25/2034	1,518	1,379
Ameriquest Mortgage Securities, Inc. Asset-Backed Pass-Through Certificates		
0.953% due 09/25/2035	7,100	6,523
Amortizing Residential Collateral Trust		
1.033% due 07/25/2032	13	12
Ares European CLO BV		
0.098% due 08/15/2024	EUR 381	423
Asset-Backed Funding Certificates Trust		
1.128% due 06/25/2035	$ 10,062	9,796
Asset-Backed Securities Corp. Home Equity Loan Trust		
2.092% due 03/15/2032	109	106
Atrium CDO Corp.		
1.421% due 11/16/2022	2,653	2,642
AVANT Loans Funding Trust		
3.920% due 08/15/2019	3,057	3,073
Avoca CLO PLC		
0.157% due 01/16/2023	EUR 21	24
Bear Stearns Asset-Backed Securities Trust		
1.453% due 10/25/2037	$ 1,913	1,776
Cadogan Square CLO BV		
0.119% due 08/12/2022	EUR 225	250
0.177% due 01/17/2023	937	1,032
Capital Auto Receivables Asset Trust		
1.148% due 11/20/2018	$ 5,000	5,005
Carlyle Global Market Strategies CLO Ltd.		
1.864% due 04/20/2022	5,200	5,195
Carlyle High Yield Partners Ltd.		
0.858% due 04/19/2022	694	678
Cavalry CLO Ltd.		
2.003% due 01/16/2024	9,778	9,765
CELF Loan Partners PLC		
0.222% due 12/15/2021	EUR 298	329
CIFC Funding Ltd.		
1.587% due 01/19/2023	$ 3,122	3,122
2.030% due 12/05/2024	4,800	4,789
Citigroup Mortgage Loan Trust, Inc.		
1.173% due 09/25/2035 ^	6,200	5,913
Countrywide Asset-Backed Certificates		
0.693% due 12/25/2031 ^	28	21
1.153% due 12/25/2033	1,608	1,508
1.253% due 03/25/2033	1,116	1,032

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Credit Suisse First Boston Mortgage Securities Corp.			
1.073% due 01/25/2032	$	7	$ 6
Duane Street CLO Ltd.			
0.856% due 11/14/2021		261	257
Educational Services of America, Inc.			
1.596% due 09/25/2040		1,633	1,630
Elm CLO Ltd.			
2.033% due 01/17/2023		7,362	7,407
Equity One Mortgage Pass-Through Trust			
1.013% due 11/25/2032		4	4
First Franklin Mortgage Loan Trust			
1.173% due 05/25/2035		300	295
Fortress Credit Investments Ltd.			
1.883% due 07/17/2023		4,022	4,001
Four Corners CLO Ltd.			
0.906% due 01/26/2020		585	581
Fraser Sullivan CLO Ltd.			
1.709% due 04/20/2023		3,110	3,096
Galaxy CLO Ltd.			
1.926% due 08/20/2022		788	789
GE-WMC Mortgage Securities Trust			
0.493% due 08/25/2036		11	5
GM Financial Automobile Leasing Trust			
0.948% due 10/22/2018		11,800	11,807
GoldenTree Loan Opportunities Ltd.			
1.328% due 10/18/2021		537	537
GSAMP Trust			
0.843% due 01/25/2036		1,067	897
Halcyon Structured Asset Management European CLO BV			
0.175% due 01/25/2023	EUR	335	372
Highbridge Loan Management Ltd.			
1.436% due 09/20/2022	$	4,710	4,710
Inwood Park CDO Ltd.			
0.859% due 01/20/2021		879	880
JPMorgan Mortgage Acquisition Corp.			
0.633% due 02/25/2036		569	549
0.683% due 05/25/2035		7,240	7,066
Jubilee CDO BV			
0.116% due 08/21/2021	EUR	165	182
LCM LP			
1.830% due 07/14/2022	$	2,444	2,444
1.893% due 10/19/2022		5,100	5,076
Leopard CLO BV			
0.140% due 07/24/2023	EUR	843	936
Lockwood Grove CLO Ltd.			
2.008% due 01/25/2024	$	5,240	5,218
Madison Park Funding Ltd.			
0.888% due 02/26/2021		3,521	3,480
1.903% due 06/15/2022		575	575
Malin CLO BV			
0.015% due 05/07/2023	EUR	2,000	2,167
0.029% due 05/07/2023		2,504	2,765
Massachusetts Educational Financing Authority			
1.588% due 04/25/2038	$	494	488
Mercator CLO PLC			
0.048% due 02/18/2024	EUR	396	437
Motor PLC			
1.053% due 06/25/2022	$	8,358	8,340
MT Wilson CLO Ltd.			
0.859% due 07/11/2020		447	447
Navient Private Education Loan Trust			
1.642% due 12/15/2028		2,100	2,071
NYMT Residential			
4.000% due 03/25/2021		2,890	2,904
Opteum Mortgage Acceptance Corp. Asset-Backed Pass-Through Certificates			
0.733% due 12/25/2035		653	571
0.763% due 04/25/2035		1,584	1,570
Panhandle-Plains Higher Education Authority, Inc.			
1.755% due 10/01/2035		1,219	1,217

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Panther CDO BV			
0.137% due 03/20/2084	EUR	3,712	$ 4,011
Prospero CLO BV			
0.098% due 10/20/2022		165	183
Queen Street CLO BV			
0.088% due 08/15/2024		264	293
RAAC Trust			
0.933% due 03/25/2037	$	556	540
Renaissance Home Equity Loan Trust			
0.953% due 12/25/2033		3,493	3,272
Residential Asset Securities Corp. Trust			
0.773% due 01/25/2036		3,106	3,085
1.338% due 01/25/2034		4,244	3,818
SLC Student Loan Trust			
0.753% due 09/15/2026		4,900	4,755
0.756% due 11/15/2021		5,363	5,344
SLM Private Credit Student Loan Trust			
0.833% due 03/15/2024		529	524
0.843% due 12/15/2023		446	440
SLM Private Education Loan Trust			
1.192% due 10/16/2023		460	459
1.492% due 06/15/2023		35	35
SLM Student Loan Trust			
0.728% due 10/25/2024		3,815	3,749
2.138% due 04/25/2023		479	479
South Carolina Student Loan Corp.			
1.423% due 03/02/2020		1,062	1,060
Specialty Underwriting & Residential Finance Trust			
0.843% due 12/25/2036		4,800	3,996
SpringCastle America Funding LLC			
2.700% due 05/25/2023		5,400	5,420
Stone Tower CLO Ltd.			
0.863% due 04/17/2021		439	435
Structured Asset Investment Loan Trust			
1.158% due 03/25/2034		637	585
1.428% due 10/25/2033		758	736
Sunrise SRL			
0.242% due 08/27/2031	EUR	235	261
Symphony CLO LP			
1.933% due 04/16/2022	$	981	980
Symphony CLO Ltd.			
1.586% due 07/23/2023		4,100	4,088
Telos CLO Ltd.			
2.318% due 04/17/2025		9,900	9,899
Voya CLO Ltd.			
1.928% due 10/15/2022		4,800	4,789
1.948% due 10/15/2022		5,300	5,292
Wells Fargo Home Equity Asset-Backed Securities Trust			
0.713% due 05/25/2036		1,100	1,050
Wood Street CLO BV			
0.107% due 11/22/2021	EUR	88	97
Total Asset-Backed Securities (Cost $217,581)			**219,906**
SOVEREIGN ISSUES 4.8%			
Athens Urban Transportation Organisation			
4.851% due 09/19/2016		2,200	2,426
Autonomous Community of Catalonia			
4.750% due 06/04/2018		2,700	3,058
Export-Import Bank of Korea			
1.380% due 01/14/2017	$	4,600	4,607
Korea Development Bank			
1.260% due 01/22/2017		800	800
3.875% due 05/04/2017		1,200	1,228
Korea Housing Finance Corp.			
3.500% due 12/15/2016		1,500	1,517
Korea Land & Housing Corp.			
1.875% due 08/02/2017		500	503
Mexico Government International Bond			
4.000% due 11/15/2040 (f)	MXN	3,249	195
8.500% due 12/13/2018		1,090,300	64,472

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Province of Ontario			
1.000% due 07/22/2016	$	2,800	$ 2,800
1.100% due 10/25/2017		13,600	13,650
Total Sovereign Issues (Cost $97,724)			**95,256**
		SHARES	
CONVERTIBLE PREFERRED SECURITIES 0.0%			
INDUSTRIALS 0.0%			
Motors Liquidation Co.			
5.250% due 03/06/2032 (c)		4,000	0
Total Convertible Preferred Securities (Cost $0)			**0**
		PRINCIPAL AMOUNT (000S)	
SHORT-TERM INSTRUMENTS 6.3%			
COMMERCIAL PAPER 5.7%			
American Electric Power, Inc.			
0.800% due 07/18/2016	$	4,000	3,998
AutoNation, Inc.			
1.300% due 07/20/2016		9,800	9,795
Deutsche Telekom AG			
0.870% due 07/08/2016		5,000	4,999
Duke Energy Corp.			
0.840% due 07/07/2016		9,800	9,799
Entergy Corp.			
1.200% due 07/11/2016		9,800	9,797
1.200% due 07/15/2016		10,300	10,296
Kraft Food Group, Inc.			
1.100% due 08/15/2016		5,000	4,994
Newell Rubbermaid, Inc.			
1.100% due 07/26/2016		8,900	8,894
Pitney Bowes, Inc.			
1.150% due 07/19/2016		2,400	2,399
Sempra Energy Holdings			
1.030% due 08/01/2016		9,700	9,693
Thermo Fisher Scientific, Inc.			
1.500% due 09/15/2016		4,000	3,989
Thomson Reuters Corp.			
0.920% due 07/19/2016		5,000	4,998
1.100% due 09/07/2016		5,000	4,993
Viacom, Inc.			
1.220% due 07/21/2016		9,700	9,696
Volvo Group Treasury N.A			
0.800% due 07/05/2016		4,800	4,800
Whirlpool Corp.			
0.870% due 08/16/2016		8,800	8,791
			111,931
REPURCHASE AGREEMENTS (g) 0.1%			
			1,677
SHORT-TERM NOTES 0.5%			
JPMorgan Chase Bank N.A.			
0.000% due 10/04/2016 (d)		10,600	10,541
U.S. TREASURY BILLS 0.0%			
0.142% due 07/21/2016 (e)(l)		150	150
Total Short-Term Instruments (Cost $124,234)			**124,299**
Total Investments in Securities (Cost $2,446,526)			**2,441,245**

	SHARES	MARKET VALUE (000S)
INVESTMENTS IN AFFILIATES 0.4%		
SHORT-TERM INSTRUMENTS 0.4%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 0.4%		
PIMCO Short-Term Floating NAV Portfolio III	812,741	$ 8,033
Total Short-Term Instruments (Cost $8,033)		**8,033**
Total Investments in Affiliates (Cost $8,033)		**8,033**
Total Investments 124.0% (Cost $2,454,559)		$ **2,449,278**
Financial Derivative Instruments (i)(k) 0.0% (Cost or Premiums, net $(736))		**665**
Other Assets and Liabilities, net (24.0)%		**(474,228)**
Net Assets 100.0%		$ **1,975,715**

NOTES TO SCHEDULE OF INVESTMENTS (AMOUNTS IN THOUSANDS*, EXCEPT NUMBER OF CONTRACTS):

- * A zero balance may reflect actual amounts rounding to less than one thousand.
- ^ Security is in default.
- (a) Interest only security.
- (b) When-issued security.
- (c) Security did not produce income within the last twelve months.
- (d) Zero coupon security.
- (e) Coupon represents a yield to maturity.
- (f) Principal amount of security is adjusted for inflation.

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(g) REPURCHASE AGREEMENTS:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral (Received)	Repurchase Agreements, at Value	Repurchase Agreement Proceeds to be Received [1]
SSB	0.010%	06/30/2016	07/01/2016	$ 1,677	U.S. Treasury Notes 1.000% due 05/15/2018	$ (1,714)	$ 1,677	$ 1,677
Total Repurchase Agreements						**$ (1,714)**	**$ 1,677**	**$ 1,677**

[1] Includes accrued interest.

REVERSE REPURCHASE AGREEMENTS:

Counterparty	Borrowing Rate [2]	Borrowing Date	Maturity Date	Amount Borrowed [2]	Payable for Reverse Repurchase Agreements
BOS	0.950%	06/28/2016	07/05/2016	$ (2,202)	$ (2,202)
	1.080	06/28/2016	07/05/2016	(55,689)	(55,694)
GRE	0.720	06/30/2016	07/07/2016	(105)	(105)
Total Reverse Repurchase Agreements					**$ (58,001)**

[2] The average amount of borrowings outstanding during the period ended June 30, 2016 was $(4,203) at a weighted average interest rate of 0.694%. Average borrowings includes sale-buyback transactions, of which there were none open at period end.

SHORT SALES:

SHORT SALES ON U.S. GOVERNMENT AGENCIES

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales
Fannie Mae, TBA	5.000%	07/01/2046	$ 100	$ (111)	$ (111)
Fannie Mae, TBA	6.000	07/01/2046	3,000	(3,423)	(3,431)
Freddie Mac, TBA	5.000	07/01/2046	500	(549)	(552)
Total Short Sales				**$ (4,083)**	**$ (4,094)**

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, 2016:

(h) Securities with an aggregate market value of $58,104 have been pledged as collateral under the terms of the following master agreements as of June 30, 2016.

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 [3]
Global/Master Repurchase Agreement						
BOS	$ 0	$ (57,896)	$ 0	$ (57,896)	$ 57,999	$ 103
GRE	0	(105)	0	(105)	105	0
SSB	1,677	0	0	1,677	(1,714)	(37)
Master Securities Forward Transaction Agreement						
SAL	0	0	0	0	(36)	(36)
Total Borrowings and Other Financing Transactions	**$ 1,677**	**$ (58,001)**	**$ 0**			

[3] Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from borrowings and other financing transactions can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

CERTAIN TRANSFERS ACCOUNTED FOR AS SECURED BORROWINGS

Remaining Contractual Maturity of the Agreements

	Overnight and Continuous	Up to 30 days	31-90 days	Greater Than 90 days	Total
Reverse Repurchase Agreements					
U.S. Treasury Obligations	$ 0	$ (58,001)	$ 0	$ 0	$ (58,001)
Total Borrowings	**$ 0**	**$ (58,001)**	**$ 0**	**$ 0**	**$ (58,001)**
Gross amount of recognized liabilities for reverse repurchase agreements					**$ (58,001)**

(i) 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	12/2017	400	$ (218)	$ 0	$ (20)
90-Day Eurodollar June Futures	Short	06/2018	556	(531)	0	(21)
90-Day Eurodollar March Futures	Short	03/2018	633	(579)	0	(24)
90-Day Eurodollar September Futures	Short	09/2018	153	(165)	0	(4)
Euro-BTP Italy Government Bond September Futures	Long	09/2016	155	500	162	0
U.S. Treasury 2-Year Note September Futures	Long	09/2016	1,726	2,408	243	0
U.S. Treasury 5-Year Note September Futures	Long	09/2016	3,075	4,768	240	0
United Kingdom 90-Day LIBOR Sterling Interest Rate June Futures	Short	06/2018	1,968	(1,289)	65	(164)
United Kingdom 90-Day LIBOR Sterling Interest Rate March Futures	Short	03/2018	575	(756)	19	(57)
Total Futures Contracts				**$ 4,138**	**$ 729**	**$ (290)**

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	1-Year BRL-CDI	14.118%	08/01/2016	BRL 431,300	$ (2)	$ (3)	$ 1	$ 0
Receive	3-Month USD-LIBOR	2.000	12/16/2019	$ 58,300	(2,307)	(927)	0	(16)
Receive	3-Month USD-LIBOR	2.000	12/16/2020	128,800	(6,088)	(2,718)	0	(14)
Receive	3-Month USD-LIBOR *	1.450	06/28/2021	65,000	(216)	(99)	29	0
Receive	3-Month USD-LIBOR	2.250	06/15/2026	28,700	(2,394)	(1,948)	57	0
Receive	3-Month USD-LIBOR	2.750	12/16/2045	3,700	(781)	(706)	41	0
Receive	3-Month USD-LIBOR	2.500	06/15/2046	4,000	(643)	(371)	43	0
Receive	6-Month GBP-LIBOR *	1.250	09/21/2018	GBP 7,100	(142)	(37)	0	(9)
Receive	6-Month GBP-LIBOR *	1.000	09/21/2018	37,600	(503)	(416)	0	(45)
Pay	28-Day MXN-TIIE	4.380	12/21/2017	MXN 1,595,500	(686)	(1,229)	0	(98)
Pay	28-Day MXN-TIIE	4.090	01/31/2018	1,645,900	(1,219)	(1,219)	0	(97)
Pay	28-Day MXN-TIIE	5.250	06/11/2018	15,300	4	(11)	0	(1)
Pay	28-Day MXN-TIIE	5.500	06/11/2018	18,800	10	(15)	0	(1)
Pay	28-Day MXN-TIIE	5.280	10/02/2019	23,400	1	(11)	0	0
Pay	28-Day MXN-TIIE	5.615	06/02/2020	21,800	12	(7)	1	0
Pay	28-Day MXN-TIIE	5.575	03/16/2022	8,000	(1)	8	2	0
Pay	28-Day MXN-TIIE	5.980	08/26/2024	52,600	16	82	20	0
					$ (14,939)	$ (9,627)	$ 194	$ (281)
Total Swap Agreements					**$ (14,939)**	**$ (9,627)**	**$ 194**	**$ (281)**

* This security has a forward starting effective date. See Note 2(a) in the Notes to Financial Statements for further information.

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, 2016:

(j) Securities with an aggregate market value of $9,773 and cash of $1,752 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of June 30, 2016. 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 [4]		
	Purchased Options	Futures	Swap Agreements	Total	Written Options	Futures	Swap Agreements	Total
Total Exchange-Traded or Centrally Cleared	**$ 0**	**$ 729**	**$ 194**	**$ 923**	**$ 0**	**$ (292)**	**$ (281)**	**$ (573)**

[4] Unsettled variation margin liability of $(2) for closed futures is outstanding at period end.

(k) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

FORWARD FOREIGN CURRENCY CONTRACTS:

Counterparty	Settlement Month	Currency to be Delivered	Currency to be Received	Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
AZD	08/2016	KRW 85,817	$ 72	$ 0	$ (2)
	08/2016	MYR 7,626	1,851	0	(61)
	08/2016	$ 610	MYR 2,510	19	0
BOA	07/2016	GBP 23,458	$ 34,396	3,168	0
	07/2016	$ 35,377	GBP 26,589	20	0
	08/2016	GBP 26,589	$ 35,386	0	(19)
	08/2016	MXN 46,039	2,482	0	(24)
	08/2016	SGD 18,702	13,726	0	(152)
	04/2017	DKK 147,198	22,478	268	0
BPS	08/2016	TWD 121,811	3,773	0	(15)
	08/2016	$ 1,750	AUD 2,370	15	0
	09/2016	CNH 13,233	$ 1,953	0	(28)
	10/2016	66,011	9,715	0	(151)
	10/2016	$ 1,948	CNH 13,233	30	0
	12/2016	9,663	66,011	174	0
	01/2017	BRL 20,000	$ 7,269	1,370	0

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation)	
						Asset	Liability
BRC	08/2016	KRW	2,299,072	$	1,962	$ 0	$ (31)
	08/2016	TWD	7,050		216	0	(3)
	08/2016	$	4,951	AUD	6,718	52	0
	08/2016		219	INR	14,797	0	(1)
	08/2016		752	KRW	889,090	19	0
	08/2016		120	MXN	2,250	2	0
CBK	08/2016	AUD	13,649	$	10,130	0	(35)
	08/2016	MXN	44,298		2,382	0	(29)
	08/2016	SGD	2,972		2,145	0	(61)
	08/2016	THB	10,231		290	0	0
	08/2016	$	11,176	AUD	15,004	15	(17)
	08/2016		7,618	EUR	6,795	0	(67)
	08/2016		57,328	JPY	6,015,700	995	0
	08/2016		3,261	MXN	62,145	122	0
	08/2016		1,571	SGD	2,129	9	0
	09/2016		4,173	CNH	28,447	81	0
DUB	08/2016	MYR	11,821	$	2,856	0	(107)
	08/2016	$	761	KRW	896,001	16	0
	10/2016	BRL	34,544	$	9,067	0	(1,395)
	12/2016	$	5,427	CNH	36,955	80	0
GLM	08/2016	AUD	2,169	$	1,563	0	(52)
	08/2016	EUR	51,556		58,900	1,607	0
	08/2016	JPY	826,200		7,578	0	(433)
	08/2016	KRW	6,558,775		5,512	0	(173)
	08/2016	$	2,070	AUD	2,791	8	0
	08/2016		3,174	EUR	2,796	0	(67)
	08/2016		10,348	JPY	1,131,600	622	0
	08/2016		6,477	RUB	434,280	234	0
	09/2016	CNH	30,853	$	4,549	0	(66)
	10/2016	$	7,444	CNH	50,697	134	0
HUS	08/2016	JPY	6,427,927	$	59,538	0	(2,781)
	08/2016	KRW	1,170		1	0	0
	08/2016	SGD	8,932		6,568	0	(59)
	08/2016	$	1,811	KRW	2,134,445	39	0
	08/2016		151	MXN	2,830	3	0
	10/2016	CNH	63,822	$	9,761	222	0
	12/2016		33,375		5,023	50	0
JPM	07/2016	BRL	46,179		13,606	0	(770)
	07/2016	DKK	57,675		8,799	193	0
	07/2016	GBP	16,494		23,359	1,431	(29)
	07/2016	$	12,684	BRL	46,179	1,691	0
	07/2016		20,436	GBP	14,239	0	(1,480)
	07/2016		6,636	RUB	427,582	32	0
	08/2016	AUD	11,965	$	8,628	0	(283)
	08/2016	CAD	546		417	0	(6)
	08/2016	EUR	8,692		9,731	72	0
	08/2016	JPY	1,098,200		9,976	0	(671)
	08/2016	KRW	18,487,839		15,785	0	(240)
	08/2016	MYR	11,303		2,750	0	(83)
	08/2016	SGD	2,706		1,961	0	(47)
	08/2016	$	13,637	AUD	18,350	29	0
	08/2016		13,501	BRL	46,179	750	0
	08/2016		17,663	EUR	15,602	0	(324)
	08/2016		5,156	GBP	3,835	0	(49)
	08/2016		6,073	JPY	664,600	370	0
	08/2016		804	MXN	14,957	10	0
	08/2016		2,587	SGD	3,486	0	0
	09/2016	RUB	427,582	$	6,533	0	(29)
	10/2016	BRL	143,300		34,111	0	(9,289)
	10/2016	$	37,552	BRL	143,300	5,847	0
	10/2016		5,067	CNH	34,504	90	0
	04/2017	DKK	57,879	$	8,947	214	0
MSB	08/2016	MXN	1,755,426		95,751	205	0
	12/2016	CNH	69,590		10,460	89	0
RBC	08/2016	SGD	5,344		3,931	0	(34)
SCX	07/2016	$	1,924	MYR	7,845	43	0
	08/2016	KRW	3,437,969	$	2,942	0	(38)
	08/2016	$	3,377	CNH	22,160	0	(57)
	08/2016		1,595	MYR	6,591	57	0
	09/2016		1,944	CNH	13,233	36	0
	10/2016		1,324		8,845	0	(2)

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
SOG	08/2016	KRW	11,111,872	$	9,514	$ 0	$ (117)
	08/2016	$	1,030	KRW	1,220,550	28	0
	08/2016		1,077	MYR	4,418	30	0
UAG	07/2016	RUB	427,582	$	6,334	0	(334)
	08/2016	MYR	1,197		294	0	(6)
	08/2016	$	42,392	EUR	37,938	41	(274)
	09/2016		352	CNH	2,406	8	0
	04/2017	DKK	102,414	$	15,566	113	0
Total Forward Foreign Currency Contracts						**$ 20,753**	**$ (19,991)**

PURCHASED OPTIONS:

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Cost	Market Value
CBK	Call - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.000%	12/21/2016	$ 300	$ 3	$ 2
GLM	Put - OTC 1-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	1.150	07/05/2016	173,700	56	0
MYC	Put - OTC 1-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	1.250	07/01/2016	276,000	93	0
	Call - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.000	12/13/2016	20,800	175	161
NGF	Put - OTC 1-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	1.250	07/05/2016	525,000	190	0
							$ 517	$ 163
Total Purchased Options							**$ 517**	**$ 163**

WRITTEN OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price		Expiration Date	Notional Amount		Premiums (Received)	Market Value
BOA	Put - OTC USD versus JPY	JPY	80.000	02/18/2019	$	3,600	$ (205)	$ (76)
CBK	Call - OTC AUD versus USD	$	0.751	07/13/2016	AUD	7,400	(40)	(30)
JPM	Put - OTC USD versus KRW	KRW	1,142.500	07/14/2016	$	10,000	(75)	(44)
UAG	Call - OTC EUR versus USD	$	1.128	08/08/2016	EUR	12,500	(84)	(86)
WST	Call - OTC AUD versus USD		0.752	07/15/2016	AUD	9,200	(62)	(38)
							$ (466)	$ (274)

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
CBK	Call - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	0.770%	12/21/2016	$ 600	$ (3)	$ (3)
MYC	Call - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	0.765	12/13/2016	41,600	(177)	(158)
							$ (180)	$ (161)
Total Written Options							**$ (646)**	**$ (435)**

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED JUNE 30, 2016:

	Balance at Beginning of Period	Sales	Closing Buys	Expirations	Exercised	Balance at End of Period
# of Contracts	0	1,405	(170)	(170)	(1,065)	0
Notional Amount in $	$ 93,000	$ 334,400	$ (42,700)	$ (234,800)	$ (94,100)	$ 55,800
Notional Amount in AUD	AUD 0	AUD 67,400	AUD (4,000)	AUD (44,500)	AUD (2,300)	AUD 16,600
Notional Amount in EUR	EUR 13,100	EUR 89,000	EUR (18,700)	EUR (33,300)	EUR (37,600)	EUR 12,500
Premiums	$ (1,327)	$ (2,773)	$ 707	$ 1,915	$ 832	$ (646)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - SELL PROTECTION (1)

Counterparty	Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2016 (2)	Notional Amount (3)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BPS	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.614%	EUR 1,500	$ 34	$ (11)	$ 23	$ 0
BRC	Berkshire Hathaway, Inc.	1.000	12/20/2023	1.340	$ 1,000	(29)	6	0	(23)
	MetLife, Inc.	1.000	03/20/2019	0.682	2,700	20	4	24	0
	Mexico Government International Bond	1.000	03/20/2018	0.679	4,300	(7)	32	25	0
	Volkswagen International Finance NV	1.000	12/20/2017	0.561	EUR 3,200	(66)	90	24	0
CBK	BP Capital Markets America, Inc.	1.000	12/20/2019	0.614	1,100	25	(8)	17	0
	Mexico Government International Bond	1.000	09/20/2016	0.364	$ 1,000	5	(3)	2	0
DUB	MetLife, Inc.	1.000	03/20/2019	0.682	1,700	29	(14)	15	0
	Mexico Government International Bond	1.000	09/20/2016	0.364	700	3	(2)	1	0
FBF	BP Capital Markets America, Inc.	1.000	12/20/2019	0.614	EUR 200	4	(1)	3	0
	Brazil Government International Bond	1.000	12/20/2016	0.666	$ 3,800	(63)	70	7	0
	Prudential Financial, Inc.	1.000	09/20/2019	0.782	3,400	69	(44)	25	0
GST	Brazil Government International Bond	1.000	12/20/2016	0.666	1,100	(19)	21	2	0
	Mexico Government International Bond	1.000	09/20/2016	0.364	1,900	9	(6)	3	0
HUS	Mexico Government International Bond	1.000	09/20/2016	0.364	700	4	(3)	1	0
JPM	BP Capital Markets America, Inc.	1.000	12/20/2019	0.614	EUR 3,800	85	(27)	58	0
	Mexico Government International Bond	1.000	09/20/2016	0.364	$ 800	4	(2)	2	0
	Prudential Financial, Inc.	1.000	09/20/2019	0.782	5,000	102	(66)	36	0
	PSEG Power LLC	1.000	12/20/2018	0.639	1,700	11	5	16	0
	Volkswagen International Finance NV	1.000	12/20/2018	0.752	EUR 1,700	(104)	116	12	0
MYC	BP Capital Markets America, Inc.	1.000	12/20/2019	0.614	3,400	78	(26)	52	0
						$ 194	$ 131	$ 348	$ (23)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION (1)

Counterparty	Index/Tranches	Fixed Receive Rate	Maturity Date	Notional Amount (3)	Premiums Paid/(Received)	Unrealized Appreciation	Swap Agreements, at Value (4) Asset	Swap Agreements, at Value (4) Liability
GST	CDX.IG-9 10-Year Index 30-100%	0.548%	12/20/2017	$ 193	$ 0	$ 1	$ 1	$ 0
JPM	CDX.IG-9 10-Year Index 30-100%	0.553	12/20/2017	386	0	3	3	0
MYC	CMBX.NA.AAA.3 Index	0.080	12/13/2049	7,370	(51)	35	0	(16)
	CMBX.NA.AAA.8 Index	0.500	10/17/2057	10,100	(750)	373	0	(377)
					$ (801)	$ 412	$ 4	$ (393)

(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
BOA	Receive	3-Month USD-CPURNSA Index	1.598%	06/02/2018	$ 116,900	$ 0	$ (67)	$ 0	$ (67)
	Receive	3-Month USD-CPURNSA Index	1.565	06/07/2018	35,900	0	(15)	0	(15)
HUS	Pay	28-Day MXN-TIIE	5.500	06/11/2018	MXN 2,700	0	2	2	0
MYC	Receive	3-Month USD-CPURNSA Index	1.593	06/03/2018	$ 42,800	0	(31)	0	(31)
						$ 0	$ (111)	$ 2	$ (113)
Total Swap Agreements						**$ (607)**	**$ 432**	**$ 354**	**$ (529)**

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, 2016:

(l) Securities with an aggregate market value of $7,542 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of June 30, 2016.

	Financial Derivative Assets				Financial Derivative Liabilities						
Counterparty	Forward Foreign Currency Contracts	Purchased Options	Swap Agreements	Total Over the Counter	Forward Foreign Currency Contracts	Written Options	Swap Agreements	Total Over the Counter	Net Market Value of OTC Derivatives	Collateral (Received)/ Pledged	Net Exposure [5]
AZD	$ 19	$ 0	$ 0	$ 19	$ (63)	$ 0	$ 0	$ (63)	$ (44)	$ 0	$ (44)
BOA	3,456	0	0	3,456	(195)	(76)	(82)	(353)	3,103	(2,630)	473
BPS	1,589	0	23	1,612	(194)	0	0	(194)	1,418	(1,660)	(242)
BRC	73	0	73	146	(35)	0	(23)	(58)	88	(170)	(82)
CBK	1,222	2	19	1,243	(209)	(33)	0	(242)	1,001	(1,660)	(659)
DUB	96	0	16	112	(1,502)	0	0	(1,502)	(1,390)	736	(654)
FBF	0	0	35	35	0	0	0	0	35	(60)	(25)
GLM	2,605	0	0	2,605	(791)	0	0	(791)	1,814	(1,840)	(26)
GST	0	0	6	6	0	0	0	0	6	(10)	(4)
HUS	314	0	3	317	(2,840)	0	0	(2,840)	(2,523)	2,871	348
JPM	10,729	0	127	10,856	(13,300)	(44)	0	(13,344)	(2,488)	2,713	225
MSB	294	0	0	294	0	0	0	0	294	(1,630)	(1,336)
MYC	0	161	52	213	0	(158)	(424)	(582)	(369)	369	(0)
NGF	0	0	0	0	0	0	0	0	0	(10)	(10)
RBC	0	0	0	0	(34)	0	0	(34)	(34)	0	(34)
RYL	0	0	0	0	0	0	0	0	0	(20)	(20)
SCX	136	0	0	136	(97)	0	0	(97)	39	0	39
SOG	58	0	0	58	(117)	0	0	(117)	(59)	0	(59)
UAG	162	0	0	162	(614)	(86)	0	(700)	(538)	314	(224)
WST	0	0	0	0	0	(38)	0	(38)	(38)	0	(38)
Total Over the Counter	**$ 20,753**	**$ 163**	**$ 354**	**$ 21,270**	**$ (19,991)**	**$ (435)**	**$ (529)**	**$ (20,955)**			

[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, 2016:

	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	$ 729	$ 729
Swap Agreements *	0	0	0	0	194	194
	$ 0	$ 0	$ 0	$ 0	$ 923	$ 923
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 20,753	$ 0	$ 20,753
Purchased Options	0	0	0	0	163	163
Swap Agreements	0	352	0	0	2	354
	$ 0	$ 352	$ 0	$ 20,753	$ 165	$ 21,270
	$ 0	$ 352	$ 0	$ 20,753	$ 1,088	$ 22,193
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 292	$ 292
Swap Agreements *	0	0	0	0	281	281
	$ 0	$ 0	$ 0	$ 0	$ 573	$ 573
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 19,991	$ 0	$ 19,991
Written Options	0	0	0	274	161	435
Swap Agreements	0	416	0	0	113	529
	$ 0	$ 416	$ 0	$ 20,265	$ 274	$ 20,955
	$ 0	$ 416	$ 0	$ 20,265	$ 847	$ 21,528

The effect of Financial Derivative Instruments on the Statement of Operations for the period ended June 30, 2016:

	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	$ 35	$ 35
Futures	0	0	0	0	(6,254)	(6,254)
Swap Agreements	0	(4)	0	0	(9,132)	(9,136)
	$ 0	$ (4)	$ 0	$ 0	$ (15,351)	$ (15,355)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 17,435	$ 0	$ 17,435
Written Options	0	0	0	1,759	316	2,075
Swap Agreements	0	613	0	0	431	1,044
	$ 0	$ 613	$ 0	$ 19,194	$ 747	$ 20,554
	$ 0	$ 609	$ 0	$ 19,194	$ (14,604)	$ 5,199
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 5,684	$ 5,684
Swap Agreements	0	0	0	0	(4,954)	(4,954)
	$ 0	$ 0	$ 0	$ 0	$ 730	$ 730
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (25,342)	$ 0	$ (25,342)
Purchased Options	0	0	0	0	(354)	(354)
Written Options	0	0	0	(632)	(61)	(693)
Swap Agreements	0	469	0	0	(1,241)	(772)
	$ 0	$ 469	$ 0	$ (25,974)	$ (1,656)	$ (27,161)
	$ 0	$ 469	$ 0	$ (25,974)	$ (926)	$ (26,431)

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of June 30, 2016 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2016
Investments in Securities, at Value				
Bank Loan Obligations	$ 0	$ 1,732	$ 0	$ 1,732
Corporate Bonds & Notes				
Banking & Finance	0	578,856	0	578,856
Industrials	0	230,001	0	230,001
Utilities	0	85,315	0	85,315
Municipal Bonds & Notes				
California	0	10,601	0	10,601
Texas	0	309	0	309
U.S. Government Agencies	0	474,160	1	474,161
U.S. Treasury Obligations	0	474,227	0	474,227
Non-Agency Mortgage-Backed Securities	0	146,176	406	146,582
Asset-Backed Securities	0	219,906	0	219,906
Sovereign Issues	0	95,256	0	95,256
Short-Term Instruments				
Commercial Paper	0	111,931	0	111,931
Repurchase Agreements	0	1,677	0	1,677
Short-Term Notes	0	10,541	0	10,541
U.S. Treasury Bills	0	150	0	150
	$ 0	$ 2,440,838	$ 407	$ 2,441,245
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 8,033	$ 0	$ 0	$ 8,033
Total Investments	$ 8,033	$ 2,440,838	$ 407	$ 2,449,278

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2016
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (4,094)	$ 0	$ (4,094)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	729	194	0	923
Over the counter	0	21,270	0	21,270
	$ 729	$ 21,464	$ 0	$ 22,193
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(290)	(281)	0	(571)
Over the counter	0	(20,955)	0	(20,955)
	$ (290)	$ (21,236)	$ 0	$ (21,526)
Totals	$ 8,472	$ 2,436,972	$ 407	$ 2,445,851

There were no significant transfers between Levels 1, 2, or 3 during the period ended June 30, 2016.

1. ORGANIZATION

PIMCO Variable Insurance Trust (the "Trust") was established as a Delaware business trust on October 3, 1997. The Trust is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. 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. Information presented in these financial statements pertains to the Institutional Class, Administrative Class and Advisor Class shares of the PIMCO Low Duration Portfolio (the "Portfolio") offered by the Trust. 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 (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, with the exception of securities with a forward starting effective date, where interest income is recorded on the accrual basis from effective 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 (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 registered investment companies are recorded as dividend income. Long-term capital gain distributions received from registered investment companies 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 denominated in foreign currencies 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 gain (loss) and net change in unrealized appreciation (depreciation) 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, if any). Realized foreign exchange gains (losses) arising from sales of spot foreign currencies, currency gains (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 (loss) on foreign currency transactions on the Statement of Operations. Net unrealized foreign exchange gains (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 (depreciation) on foreign currency assets and liabilities on the Statement of Operations.

(c) Multiclass Operations Each class offered by the Trust 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 net assets.

Realized and unrealized capital gains (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. Under certain circumstances, the per share net asset value ("NAV") of a class of the Portfolio's shares may be different from the per share NAV of another class of shares as a result of the different daily expense accruals applicable to each class of shares.

(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 transactions that may cause character 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 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 gain (loss) and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

(e) New Accounting Pronouncements In August 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), ASU 2014-15 requiring management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern. The ASU is effective prospectively for annual periods ending after December 15, 2016, and interim periods thereafter. 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 NAV 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 NAV per share practical expedient. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. The ASU did not have an impact on the Portfolio's 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 the Portfolio, or each of its share classes, as applicable, is determined by dividing the total value of portfolio investments and other assets attributable to the Portfolio or class, less any liabilities, by the total number of shares outstanding of the Portfolio or class.

On each day that the New York Stock Exchange ("NYSE") is open, Portfolio shares are ordinarily valued as of the close of regular trading ("NYSE Close"). 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 Adviser 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 (other than exchange-traded funds ("ETFs")), 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 of the Trust (the "Board"). 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 shareholders 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 value of such investments and, in turn, 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 investments 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.) investments, the value of those investments may change at times when shareholders are unable to buy or sell shares and the value of such investments will be reflected in the Portfolio's next calculated NAV.

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 or persons acting at their direction. The Board has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to the Adviser 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 ("Valuation Oversight Committee"), generally based on recommendations provided by the Adviser. 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, indicative market quotations ("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 the Adviser 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 a Portfolio uses fair valuation to determine the value of a portfolio security or other asset for purposes of calculating its NAV, such investments 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 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 or persons acting at their direction would accurately reflect the price that a 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 a 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 into 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 realized gain (loss), unrealized appreciation (depreciation), purchases and sales, accrued discounts (premiums), and transfers into and 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 and liabilities 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 Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The Pricing Services' 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 Services 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, ETFs, exchange-traded notes and financial derivative instruments, such as futures contracts, rights and warrants, 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.

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 Services 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 (other than ETFs) 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 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 debt investments having a maturity of 60 days or less and repurchase agreements were generally valued at amortized cost which approximates fair value. Short-term debt instruments having a remaining maturity of 60 days or less are categorized as Level 2 of the fair value hierarchy.

Equity exchange-traded options and over the counter financial derivative instruments, such as forward 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 as of the NYSE Close). Depending on the product and the terms of the transaction, financial derivative instruments can be valued by Pricing Services 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 the Adviser that uses significant unobservable inputs, investments will be priced by a method that the Board or persons acting at their direction believe reflects fair value and are categorized as Level 3 of the fair value hierarchy.

The validity of the fair value is reviewed by the Adviser on a periodic basis and may be amended in accordance with the Trust's valuation procedures.

4. SECURITIES AND OTHER INVESTMENTS

(a) 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 other series of registered investment companies advised by the Adviser, in connection with their cash management activities. The main investments of the Central Fund are money market and short maturity fixed income instruments. The Central Fund may incur expenses related to its investment activities, but does not pay Investment Advisory Fees or

Supervisory and Administrative Fees to the Adviser. 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 affiliated Fund for the period ended June 30, 2016 (amounts in thousands†):

Investments in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2015	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 06/30/2016	Dividend Income (1)	Realized Net Capital Gain Distributions (1)
$ 114,868	$ 578,598	$ (685,500)	$ (397)	$ 464	$ 8,033	$ 199	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.
(1) The tax characterization of distributions is determined in accordance with Federal income tax regulations. The actual tax characterization of distributions paid are determined at the end of the fiscal year. See Note 2(d) in the Notes to Financial Statements for more information.

(b) 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 or assignments of all or a portion of loans from third parties or investments in or originations of loans by the Portfolio. A loan is often administered by a bank or other financial institution (the "agent") 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 agents it acquires direct rights against the borrowers of the loans. 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 agent selling the loan agreement and only upon receipt of payments by the agent 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, 2016, 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 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.

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.

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 To Be Announced (“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 purchased or sold are reflected on the Statement of Assets and Liabilities as an asset or liability, respectively.

When-Issued Transactions Certain Portfolios 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. Transactions to purchase or sell securities on a when-issued basis involve a commitment by a Portfolio to purchase or sell these securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. A Portfolio may sell when-issued securities before they are delivered, which may result in a realized gain (loss).

5. BORROWINGS AND OTHER FINANCING TRANSACTIONS

The following disclosures contain information on the Portfolio’s ability to lend or borrow cash or securities to the extent permitted under the Act, which may be viewed as borrowing or financing transactions by the Portfolio. The location of these instruments in the Portfolio’s financial statements is 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 purchases 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 by 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, if any, 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 the 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. In an open maturity reverse repurchase agreement, there is no pre-determined repurchase date and the agreement can be terminated by the Portfolio or counterparty at any time. 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 the Adviser 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 the Adviser 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 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, 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 net realized gain (loss) and net change in unrealized appreciation (depreciation) 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 net realized gain (loss) and net change in unrealized appreciation (depreciation) 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 (loss). Realized gains (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 (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 ("Futures Variation Margin"). Gains (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 the Futures Variation Margin included within exchange traded or centrally cleared financial derivative instruments on the Statement of Assets and Liabilities.

(c) Options Contracts The Portfolio may write or purchase options to enhance returns or to hedge an existing position or future investment. 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 (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 (loss) when the underlying transaction is executed.

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.

Interest Rate Swaptions The Portfolio may write or purchase interest rate swaptions which are options to enter into a pre-defined swap agreement by some specified date in the future. The writer of the swaption becomes the counterparty to the swap if the buyer exercises. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise.

(d) Swap Agreements The Portfolio may invest in swap agreements. Swap agreements are bilaterally negotiated agreements between the Portfolio and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. Swap agreements 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.

Centrally Cleared 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 ("Swap Variation Margin"), if any, are disclosed within centrally cleared financial derivative instruments 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 gain (loss) 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 (loss) on the Statement of Operations. Net periodic payments received or paid by the Portfolio are included as part of realized gain (loss) 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 swap 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 may be 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 A Portfolio may use credit default swaps on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues to provide a measure of protection against defaults of the issuers (*i.e.*, to reduce risk where a 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 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 swap 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. 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).

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, loan, sovereign, U.S. municipal or U.S. Treasury issues as of period end, if any, 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 derivative instruments and other financial instruments expose the Portfolio to various risks such as, but not limited to, interest rate, foreign (non-U.S.) currency, equity and commodity risks.

Interest rate risk is the risk that fixed income securities and other instruments held by the Portfolio 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 the Portfolio's 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.

Duration is a measure used to determine the sensitivity of a security's price to changes in interest rates that incorporates a security's yield, coupon, final maturity and call features, among other characteristics. Convexity is an additional measure of interest rate sensitivity that measures the rate of change of duration in response to changes in interest rates. 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. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). At present, the U.S. and many parts of the world, including certain European countries, are experiencing near historically low interest rates. The Portfolio may be subject to heightened interest rate risk because the Fed has ended its quantitative easing program and has begun, and may continue, to raise interest rates. Further, while bond markets have steadily grown over the past three decades, dealer "market making" ability has not kept pace and in some cases has decreased. 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 shareholder redemptions, which could force the Portfolio to liquidate investments at disadvantageous times or prices, thereby adversely affecting the Portfolio.

To the extent that the Portfolio may invest in securities and instruments that are economically tied to Russia, the Portfolio is 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, as compared to U.S. markets, has significant price volatility, less liquidity, a smaller market capitalization and a smaller number of traded securities. 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 derivative instruments 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. Over the counter ("OTC") derivative transactions are subject to the risk that a counterparty to the transaction will not fulfill its contractual obligations to the other party, as many of the protections afforded to centrally cleared derivative transactions might not be available for OTC derivative transactions. For financial derivative instruments traded on exchanges or clearinghouses, the primary credit risk is the creditworthiness of the Portfolio's clearing broker or the exchange or clearinghouse itself. The Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a financial derivative instruments 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 and financial derivative instruments are subject to varying degrees of credit risk, which may be 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. PIMCO's attempts to minimize counterparty risk may, however, be unsuccessful.

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 ("Master Agreements") with select counterparties.

Master Agreements govern the terms of certain transactions, and reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. 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 presents 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 most 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 depending on the terms outlined in the applicable Master Agreement. 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 with counterparty. 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 from counterparty. 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, transaction 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 addenda govern cleared derivatives transactions such as futures, options on futures, and cleared OTC derivatives. Such transactions require posting of initial margin as determined by each relevant clearing agency which is segregated in an account at a futures commission merchant ("FCM") registered with the Commodity Futures Trading Commission ("CFTC"). In the United States, counterparty risk may be reduced as creditors of an FCM cannot have a claim to Portfolio assets in the segregated account. Portability of exposure 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 unless the parties have agreed to a separate arrangement in respect of portfolio margining. The market value or accumulated unrealized appreciation (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 bilateral OTC derivative transactions entered into by the Portfolio with select counterparties. ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral posting 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, as applicable, is charged at the annual rate as noted in the following table:

	Supervisory and Administrative Fee
Institutional Class	0.25%
Administrative Class	0.25%
Advisor Class	0.25%

(c) Distribution and Servicing Fees PIMCO Investments LLC ("PI"), a wholly-owned subsidiary of PIMCO, serves as the distributor ("Distributor") of the Trust's shares. The Trust has adopted an Administrative Services Plan with respect to the Administrative Class shares of the Portfolio pursuant to Rule 12b-1 under the Act (the "Administrative Plan"). Under the terms of the Administrative Plan, the Trust is permitted to compensate the Distributor, out of the Administrative Class assets of the Portfolio, in an amount up to 0.15% on an annual basis of the average daily net assets of that class, for providing or procuring through financial intermediaries administrative, recordkeeping and investor services for Administrative Class shareholders of the Portfolio.

The Trust has adopted a separate Distribution and Servicing Plan for the Advisor Class shares of the Portfolio (the "Distribution and Servicing Plan"). The Distribution and Servicing Plan has been adopted pursuant to Rule 12b-1 under the Act. The Distribution and Servicing Plan permits the Portfolio to compensate the Distributor for providing or procuring through financial intermediaries distribution, administrative, recordkeeping, shareholder and/or related services with respect to Advisor Class shares. The Distribution and Servicing Plan permits the Portfolio to make total payments at an annual rate of up to 0.25% of its average daily net assets attributable to its Advisor Class shares.

	Distribution Fee	Servicing Fee
Administrative Class	—	0.15%
Advisor Class	0.25%	—

(d) Portfolio Expenses PIMCO provides or procures supervisory and administrative services for shareholders and also bears the costs of various third-party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. 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.

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, so that each co-lead individually receives an additional retainer of $1,625) and the governance committee chair receives an additional annual retainer of $1,500. The Lead Independent Trustee receives an annual retainer of $3,500.

These expenses are allocated on a pro rata basis to each Portfolio of the Trust according to its respective net assets except PIMCO All Asset Portfolio. 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, Fees and Expenses, 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. 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, or an affiliate of 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 under the Act. Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended June 30, 2016, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

Purchases	Sales
$ 30,109	$ 57,710

10. GUARANTEES AND INDEMNIFICATIONS

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

11. PURCHASES AND SALES OF SECURITIES

The length of time the Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the Portfolio is known as "portfolio turnover." The Portfolio may engage in frequent and active trading of portfolio securities to achieve its investment objective, particularly during periods of volatile market movements. High portfolio turnover may involve correspondingly greater transaction costs 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 transaction costs and tax effects associated with portfolio turnover may adversely affect the Portfolio's performance. The portfolio turnover rates are reported in the Financial Highlights.

Purchases and sales of securities (excluding short-term investments) for the period ended June 30, 2016, were as follows (amounts in thousands):

U S Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 3,305,336	$ 3,020,795	$ 273,996	$ 316,715

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 06/30/2016		Year Ended 12/31/2015	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	418	$ 4,291	409	$ 4,303
Administrative Class	12,680	129,887	24,857	261,154
Advisor Class	9,771	100,071	15,590	164,276
Issued as reinvestment of distributions				
Institutional Class	6	63	30	308
Administrative Class	959	9,842	4,414	45,887
Advisor Class	470	4,819	2,167	22,510
Cost of shares redeemed				
Institutional Class	(381)	(3,911)	(914)	(9,687)
Administrative Class	(17,664)	(180,896)	(40,239)	(425,738)
Advisor Class	(9,876)	(101,117)	(12,840)	(135,449)
Net increase (decrease) resulting from Portfolio share transactions	(3,617)	$ (36,951)	(6,526)	$ (72,436)

As of June 30, 2016, two shareholders each owned 10% or more of the Portfolio's total outstanding shares comprising 43% of the Portfolio.

13. REGULATORY AND LITIGATION MATTERS

The Portfolio 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 non-public 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 the 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, 2016, 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 2013-2015, 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 December 31, 2015, the Portfolio had accumulated capital losses expiring in the following years (amounts in thousands). The Portfolio will resume capital gain distributions in the future to the extent gains are realized in excess of accumulated capital losses.

	Expiration of Accumulated Capital Losses		
	12/31/2016	12/31/2017	12/31/2018
PIMCO Low Duration Portfolio	$ —	$ 8,599	$ —

Under the Regulated Investment Company Act of 2010, a fund is permitted to carry forward any new capital losses for an unlimited period. Additionally, such capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term under previous law.

As of December 31, 2015 the Portfolio had the following post-effective capital losses with no expiration (amounts in thousands):

	Short-Term	Long-Term
PIMCO Low Duration Portfolio	$ 13,392	$ 8,530

As of June 30, 2016, 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]
$ 2,456,786	$ 17,078	$ (24,586)	$ (7,508)

[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:

AZD	Australia and New Zealand Banking Group	**GLM**	Goldman Sachs Bank USA	**RBC**	Royal Bank of Canada
BOA	Bank of America N.A.	**GST**	Goldman Sachs International	**RYL**	Royal Bank of Scotland Group PLC
BOS	Banc of America Securities LLC	**HUS**	HSBC Bank USA N.A.	**SCX**	Standard Chartered Bank
BPS	BNP Paribas S.A.	**JPM**	JPMorgan Chase Bank N.A.	**SOG**	Societe Generale
BRC	Barclays Bank PLC	**MSB**	Morgan Stanley Bank N.A.	**SSB**	State Street Bank and Trust Co.
CBK	Citibank N.A.	**MYC**	Morgan Stanley Capital Services, Inc.	**UAG**	UBS AG Stamford
DUB	Deutsche Bank AG	**NGF**	Nomura Global Financial Products, Inc.	**WST**	Westpac Banking Corp.
FBF	Credit Suisse International				

Currency Abbreviations:

AUD	Australian Dollar	**GBP**	British Pound	**RUB**	Russian Ruble
BRL	Brazilian Real	**INR**	Indian Rupee	**SGD**	Singapore Dollar
CAD	Canadian Dollar	**JPY**	Japanese Yen	**THB**	Thai Baht
CNH	Chinese Renminbi (Offshore)	**KRW**	South Korean Won	**TWD**	Taiwanese Dollar
DKK	Danish Krone	**MXN**	Mexican Peso	**USD (or $)**	United States Dollar
EUR	Euro	**MYR**	Malaysian Ringgit		

Exchange Abbreviations:

OTC	Over the Counter

Index/Spread Abbreviations:

CDX.IG	Credit Derivatives Index - Investment Grade	**CMBX**	Commercial Mortgage-Backed Index	**CPURNSA**	Consumer Price All Urban Non-Seasonally Adjusted Index

Other Abbreviations:

ALT	Alternate Loan Trust	**CLO**	Collateralized Loan Obligation	**LIBOR**	London Interbank Offered Rate
CDI	Brazil Interbank Deposit Rate	**FDIC**	Federal Deposit Insurance Corp.	**TIIE**	Tasa de Interés Interbancaria de Equilibrio "Equilibrium Interbank Interest Rate"
CDO	Collateralized Debt Obligation				

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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.

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FRANKLIN TEMPLETON
INVESTMENTS

Semiannual Report
June 30, 2016

Franklin Templeton
Variable Insurance Products Trust

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Franklin Templeton Variable Insurance Products Trust Semiannual Report

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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.

Templeton Developing Markets VIP Fund

We are pleased to bring you Templeton Developing Markets VIP Fund's semiannual report for the period ended June 30, 2016.

Class 2 Performance Summary as of June 30, 2016

The Fund's Class 2 shares delivered a +10.58% total return* for the six-month period ended June 30, 2016.

*The Fund has a fee waiver associated with any investment in a Franklin Templeton money fund and/or other Franklin Templeton fund, as applicable, contractually guaranteed through at least the Fund's 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

The 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.

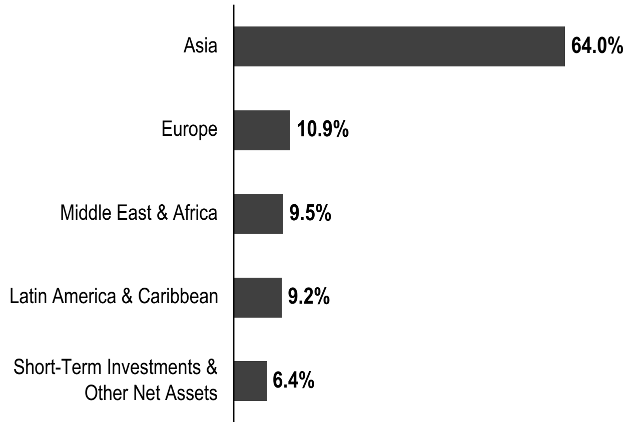
Performance Overview

You can find the Fund's six-month total return in the Performance Summary. In comparison, the MSCI Emerging Markets (EM) Index generated a +6.60% total return, and the Standard & Poor's®/International Finance Corporation Investable Composite Index produced a +6.11% 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 grew moderately during the six months under review amid a generally weak recovery in developed markets and slowing growth in emerging markets. Nonetheless, emerging market economies overall continued to grow faster than developed market economies. India's economy expanded in 2016's first quarter at the fastest annual rate in one and a half years, driven by private spending. China's economy grew in 2016's first half at an annual rate that was within the government's targeted range, aided by fiscal and monetary stimulus measures. Russia's economy remained in recession in 2016's first quarter amid declines in manufacturing, construction and wholesale and retail trade, as did Brazil's economy, amid weakness in investment and domestic consumption.

Geographic Breakdown
Based on Total Net Assets as of 6/30/16



Several emerging market central banks, including those of Mexico and South Africa, raised their benchmark interest rates to control inflation and support their currencies, while some, including South Korea and Hungary, lowered their benchmark interest rates to promote economic growth. The Reserve Bank of India cut its benchmark interest rate to a five-year low and took steps to increase monetary liquidity. The Bank of Russia reduced its key interest rate in June, citing lower inflation expectations amid an economic recession. Although the People's Bank of China (PBOC) left its benchmark interest rate unchanged, it employed other monetary easing measures that included cutting the cash reserve requirement ratio for the country's banks in February and effectively devaluing the renminbi against the U.S. dollar to the lowest level in more than five years.

Emerging market stocks recovered from the heightened volatility in early 2016 caused by a plunge in China's domestic market on January 4, which triggered the country's new circuit-breaker system and halted trading. Further hurting stocks were a collapse in crude oil prices and investor concerns about global economic growth. However, emerging market stocks began to rebound in late January as crude oil prices rose and the PBOC implemented monetary stimulus measures. Further bolstering investor sentiment during the period were monetary easing measures by other major central banks, notably the Bank of Japan and the European

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.

Central Bank (ECB); the finalization of a new debt deal for Greece; and a price increase in most commodities. Although the U.K.'s referendum vote to leave the European Union led to stock declines globally, emerging market stocks overall rebounded by period-end as many investors grew optimistic that the Bank of England and the ECB would introduce additional monetary easing measures. In this environment, emerging market stocks, as measured by the MSCI EM Index, generated a +6.60% total return, with all major regions posting positive returns.[1]

Investment Strategy

We employ a fundamental research, value-oriented, long-term investment approach. We focus on the market price of a company's securities relative to our evaluation of its long-term earnings, asset value and cash flow potential. We also consider a company's profit and loss outlook, balance sheet strength, cash flow trends and asset value in relation to the current price. Our analysis considers the company's corporate governance behavior as well as its position in its sector, the economic framework and political environment. We invest in securities without regard to benchmark comparisons.

Manager's Discussion

During the six months under review, key contributors to the Fund's absolute performance included our investments in Banco Bradesco, Itau Unibanco Holding and TSMC (Taiwan Semiconductor Manufacturing Co.).

Banco Bradesco and Itau Unibanco, two of Brazil's largest financial conglomerates, provide a full range of banking and financial services. The initiation of impeachment proceedings against President Dilma Rousseff, which led to her suspension for up to 180 days, boosted investor confidence about the Brazilian market overall as many investors grew optimistic about the takeover of Vice President Michel Temer as acting president. Although both companies reported weaker-than-expected first quarter 2016 net income, largely due to higher loan-loss provisions, their stocks participated in the Brazilian stock market's substantial rally in 2016's first half. Other favorable factors included the Brazilian real's appreciation, an improvement in business sentiment and some positive economic data.

TSMC is the world's largest independent integrated circuit foundry. Its better-than-expected first quarter 2016 revenues and agreement with Apple to be the exclusive supplier of processors for the next-generation iPhones, leading to higher revenue growth expectations for 2016's second half, supported share price performance. Additionally, development of technologies in other areas, such as mobile computing and high-performance computing devices, led many investors to adopt a positive view on the company.

Top 10 Countries
6/30/16

	% of Total Net Assets
China	17.7%
South Korea	12.5%
India	10.3%
Taiwan	9.9%
South Africa	8.5%
Brazil	8.2%
U.K.	5.2%
Thailand	4.7%
Russia	3.3%
Hong Kong	3.2%

In contrast, key detractors from the Fund's absolute performance included our positions in Brilliance China Automotive Holdings, China Life Insurance and Baidu.

Chinese shares experienced substantial weakness in early January, as the effect of growth concerns were exacerbated by uncertainty about the country's foreign exchange policy. This uncertainty resulted in the renminbi's devaluation, and Chinese authorities' equity market intervention, which further rattled investor confidence. The renminbi continued to weaken against the U.S. dollar during the period, reaching the lowest level in more than five years. A rebound in Chinese stocks in the latter part of the reporting period failed to completely offset earlier declines.

Brilliance China Automotive is a major Chinese automobile manufacturer with a joint venture with German luxury automobile manufacturer BMW for the production and sale of BMW 3-series and 5-series vehicles in China. Reduced earnings in 2016's first quarter, resulting from lower sales and higher-than-expected selling expenses, hurt the company's share price. Investor sentiment, however, improved later in the period due to expectations that new product launches could drive sales and profitability in 2016's second half.

China Life Insurance is one of China's largest life insurance companies. Disappointing earnings in 2016's first quarter, due mainly to lower investment income combined with concerns about a lower interest rate environment and the renminbi's depreciation, hurt the company's stock price. Further dampening market sentiment were worries that the company's recent acquisitions of commercial banks might raise its risk profile.

Baidu is China's leading Internet search engine and online marketing solutions provider, with the largest website in China and among the largest globally. The company also operates an e-commerce platform with an online payment tool; develops and markets web application software; and provides a variety of services and products, including entertainment products and human resource related services. Its shares fell after the company was criticized for misleading users with search results, leading the Chinese government to institute new Internet regulations, which prompted the company to lower its second quarter 2016 revenue outlook.

In the past six months, we increased the Fund's investments notably in South Korea, Russia, Taiwan and Saudi Arabia[2] as we continued to invest in opportunities we considered more attractive. In sector terms, we increased investments largely in information technology (IT), energy, materials and consumer discretionary.[3] Key purchases included an additional investment in South Korea-based Samsung Electronics, a leading global electronics manufacturer, as well as new positions in Alibaba Group Holding, China's largest e-commerce company, and Saudi Basic Industries,[2] one of the world's largest petrochemical producers and one of the Middle East's largest steel manufacturers.

Conversely, we reduced the Fund's investments largely in South Africa, India and China, primarily through China H shares, as we sought to focus on opportunities we considered to be more attractively valued within our investment universe.[4] We also conducted some sales in Thailand. In sector terms, some of the largest sales were in consumer staples, telecommunication services and financials.[5] Key sales included reducing the Fund's holdings in Belgium-listed Anheuser-Busch InBev, a global brewer; and Tata Consultancy Services, an Indian IT consulting and services firm. We also closed the Fund's position in China Construction Bank, a Chinese financial and banking services provider.

Thank you for your participation in Templeton Developing Markets VIP Fund. We look forward to serving your future investment needs.

Top 10 Holdings
6/30/16

Company ***Sector/Industry, Country***	**% of Total Net Assets**
Taiwan Semiconductor Manufacturing Co. Ltd. *Semiconductors & Semiconductor Equipment, Taiwan*	5.9%
Samsung Electronics Co. Ltd. *Technology Hardware, Storage & Peripherals, South Korea*	5.3%
Unilever PLC *Personal Products, U.K.*	5.2%
Naspers Ltd. *Media, South Africa*	5.0%
Tencent Holdings Ltd. *Internet Software & Services, China*	4.0%
Itau Unibanco Holding SA *Banks, Brazil*	3.0%
Brilliance China Automotive Holdings Ltd. *Automobiles, China*	3.1%
Banco Bradesco SA *Banks, Brazil*	2.8%
China Mobile Ltd. *Wireless Telecommunication Services, China*	2.1%
Hon Hai Precision Industry Co. Ltd. *Electronic Equipment, Instruments & Components, Taiwan*	2.1%

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI).

2. Investments were made through participatory notes, which are equity access products structured as debt obligations and are issued or backed by banks and broker-dealers and designed to replicate equity market exposure in frontier markets where direct investment is either impossible or difficult due to local investment restrictions.

3. The IT sector comprises electronic equipment, instruments and components; Internet software and services; IT services; semiconductors and semiconductor equipment; software; and technology hardware, storage and peripherals in the SOI. The energy sector comprises oil, gas and consumable fuels in the SOI. The materials sector comprises chemicals, construction materials, metals and mining, and paper and forest products in the SOI. The consumer discretionary sector comprises auto components; automobiles; distributors; hotels, restaurants and leisure; Internet and catalog retail; media; and textiles, apparel and luxury goods in the SOI.

4. "China H" denotes shares of China-incorporated, Hong Kong Stock Exchange-listed companies with most businesses in China.

5. The consumer staples sector comprises beverages, food and staples retailing, food products and personal products in the SOI. The telecommunication services sector comprises diversified telecommunication services and wireless telecommunication services in the SOI. The financials sector comprises banks, capital markets, diversified financial services, insurance, and real estate management and development in the SOI.

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2016, 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.

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 1/1/16	Ending Account Value 6/30/16	Fund-Level Expenses Incurred During Period* 1/1/16–6/30/16
Actual	$1,000	$1,105.80	$8.41
Hypothetical (5% return before expenses)	$1,000	$1,016.86	$8.06

*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 182/366 to reflect the one-half year period.

Financial Highlights

Templeton Developing Markets VIP Fund

	Six Months Ended June 30, 2016 (unaudited)	Year Ended December 31, 2015	2014	2013	2012	2011
Class 1						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$6.37	$9.27	$10.26	$10.58	$9.50	$11.40
Income from investment operations[a]:						
Net investment income[b]	0.03	0.06	0.15[c]	0.13	0.19	0.17
Net realized and unrealized gains (losses)	0.65	(1.63)	(0.97)	(0.22)	1.06	(1.94)
Total from investment operations	0.68	(1.57)	(0.82)	(0.09)	1.25	(1.77)
Less distributions from:						
Net investment income	(0.08)	(0.20)	(0.17)	(0.23)	(0.17)	(0.13)
Net realized gains	—	(1.13)	—	—	—	—
Total distributions	(0.08)	(1.33)	(0.17)	(0.23)	(0.17)	(0.13)
Redemption fees	—	—	—[d]	—[d]	—[d]	—[d]
Net asset value, end of period	$6.97	$6.37	$9.27	$10.26	$10.58	$9.50
Total return[e]	10.65%	(19.42)%	(8.09)%	(0.73)%	13.40%	(15.67)%
Ratios to average net assets[f]						
Expenses before waiver and payments by affiliates	1.38%	1.33%	1.36%	1.35%	1.35%	1.40%
Expenses net of waiver and payments by affiliates	1.36%	1.32%	1.36%[g]	1.35%	1.35%	1.40%
Net investment income	1.09%	0.74%	1.51%[c]	1.25%	1.93%	1.57%
Supplemental data						
Net assets, end of period (000's)	$81,400	$77,000	$114,487	$145,707	$203,568	$232,544
Portfolio turnover rate	11.14%	71.69%	82.87%	44.59%	24.45%	14.90%

[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 related to income received in the form of special dividends in connection with certain fund holdings. Excluding this amount, 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%.

Templeton Developing Markets VIP Fund (continued)

	Six Months Ended June 30, 2016 (unaudited)	Year Ended December 31, 2015	2014	2013	2012	2011
Class 2						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$6.32	$9.20	$10.19	$10.50	$9.42	$11.30
Income from investment operations[a]:						
Net investment income[b]	0.03	0.04	0.12[c]	0.10	0.17	0.14
Net realized and unrealized gains (losses)	0.64	(1.61)	(0.96)	(0.21)	1.05	(1.92)
Total from investment operations	0.67	(1.57)	(0.84)	(0.11)	1.22	(1.78)
Less distributions from:						
Net investment income	(0.06)	(0.18)	(0.15)	(0.20)	(0.14)	(0.10)
Net realized gains	—	(1.13)	—	—	—	—
Total distributions	(0.06)	(1.31)	(0.15)	(0.20)	(0.14)	(0.10)
Redemption fees	—	—	—[d]	—[d]	—[d]	—[d]
Net asset value, end of period	$6.93	$6.32	$9.20	$10.19	$10.50	$9.42
Total return[e]	10.58%	(19.60)%	(8.39)%	(0.92)%	13.16%	(15.86)%
Ratios to average net assets[f]						
Expenses before waiver and payments by affiliates	1.63%	1.58%	1.61%	1.60%	1.60%	1.65%
Expenses net of waiver and payments by affiliates	1.61%	1.57%	1.61%[g]	1.60%	1.60%	1.65%
Net investment income	0.84%	0.49%	1.26%[c]	1.00%	1.68%	1.32%
Supplemental data						
Net assets, end of period (000's)	$209,100	$192,120	$250,813	$274,683	$291,638	$295,223
Portfolio turnover rate	11.14%	71.69%	82.87%	44.59%	24.45%	14.90%

[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 related to income received in the form of special dividends in connection with certain fund holdings. Excluding this amount, 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%.

Templeton Developing Markets VIP Fund (continued)

	Six Months Ended June 30, 2016 (unaudited)	Year Ended December 31,				
		2015	2014	2013	2012	2011
Class 4						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$6.34	$9.22	$10.20	$10.50	$9.42	$11.30
Income from investment operations[a]:						
Net investment income[b]	0.02	0.03	0.12[c]	0.10	0.16	0.13
Net realized and unrealized gains (losses)	0.64	(1.62)	(0.97)	(0.21)	1.04	(1.91)
Total from investment operations	0.66	(1.59)	(0.85)	(0.11)	1.20	(1.78)
Less distributions from:						
Net investment income	(0.04)	(0.16)	(0.13)	(0.19)	(0.12)	(0.10)
Net realized gains	—	(1.13)	—	—	—	—
Total distributions	(0.04)	(1.29)	(0.13)	(0.19)	(0.12)	(0.10)
Redemption fees	—	—	—[d]	—[d]	—[d]	—[d]
Net asset value, end of period	$6.96	$6.34	$9.22	$10.20	$10.50	$9.42
Total return[e]	10.49%	(19.70)%	(8.48)%	(1.07)%	13.06%	(15.88)%
Ratios to average net assets[f]						
Expenses before waiver and payments by affiliates	1.73%	1.68%	1.71%	1.70%	1.70%	1.75%
Expenses net of waiver and payments by affiliates	1.71%	1.67%	1.71%[g]	1.70%	1.70%	1.75%
Net investment income	0.74%	0.39%	1.16%[c]	0.90%	1.58%	1.22%
Supplemental data						
Net assets, end of period (000's)	$6,872	$7,109	$11,106	$15,225	$23,341	$24,380
Portfolio turnover rate	11.14%	71.69%	82.87%	44.59%	24.45%	14.90%

[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 related to income received in the form of special dividends in connection with certain fund holdings. Excluding this amount, 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%.

Statement of Investments, June 30, 2016 (unaudited)

Templeton Developing Markets VIP Fund

	Industry	Shares	Value
Common Stocks 86.8%			
Argentina 0.3%			
[a] Grupo Clarin SA, B, GDR, Reg S	Media	9,190	$ 182,881
MercadoLibre Inc.	Internet Software & Services	5,600	787,753
			970,634
Belgium 1.4%			
Anheuser-Busch InBev NV	Beverages	31,970	4,173,048
Brazil 2.4%			
CETIP SA - Mercados Organizados	Capital Markets	160,600	2,190,045
Duratex SA	Paper & Forest Products	175,743	465,189
M Dias Branco SA	Food Products	72,900	2,404,120
Mahle-Metal Leve SA Industria e Comercio	Auto Components	132,600	947,674
Totvs SA	Software	112,200	1,067,074
			7,074,102
Cambodia 1.1%			
NagaCorp Ltd.	Hotels, Restaurants & Leisure	4,824,000	3,208,352
China 17.7%			
[b] Alibaba Group Holding Ltd., ADR	Internet Software & Services	36,690	2,917,956
[b] Baidu Inc., ADR	Internet Software & Services	33,200	5,482,980
Brilliance China Automotive Holdings Ltd.	Automobiles	8,909,300	9,083,330
China Life Insurance Co. Ltd., H	Insurance	855,000	1,831,564
China Mobile Ltd.	Wireless Telecommunication Services	550,500	6,297,247
China Petroleum and Chemical Corp., H	Oil, Gas & Consumable Fuels	8,024,000	5,781,330
COSCO Pacific Ltd.	Transportation Infrastructure	1,046,200	1,038,318
Dah Chong Hong Holdings Ltd.	Distributors	1,746,100	821,461
NetEase Inc., ADR	Internet Software & Services	20,103	3,884,302
Poly Culture Group Corp. Ltd., H	Media	229,200	529,983
Tencent Holdings Ltd.	Internet Software & Services	522,100	11,863,997
Uni-President China Holdings Ltd.	Food Products	3,563,300	2,994,505
			52,526,973
Hong Kong 3.2%			
Dairy Farm International Holdings Ltd.	Food & Staples Retailing	454,133	3,060,856
MGM China Holdings Ltd.	Hotels, Restaurants & Leisure	2,612,800	3,381,154
Sands China Ltd.	Hotels, Restaurants & Leisure	936,000	3,124,645
			9,566,655
Hungary 1.0%			
Richter Gedeon Nyrt	Pharmaceuticals	145,180	2,884,456
India 10.3%			
Bajaj Holdings and Investment Ltd.	Diversified Financial Services	25,190	621,374
Biocon Ltd.	Biotechnology	476,812	5,235,454
Dr. Reddy's Laboratories Ltd.	Pharmaceuticals	84,890	4,252,687
Glenmark Pharmaceuticals Ltd.	Pharmaceuticals	91,248	1,080,113
ICICI Bank Ltd.	Banks	1,348,450	4,805,206
Infosys Ltd.	IT Services	183,099	3,175,707
Oil & Natural Gas Corp. Ltd.	Oil, Gas & Consumable Fuels	722,700	2,315,722
Reliance Industries Ltd.	Oil, Gas & Consumable Fuels	206,000	2,957,536
Tata Chemicals Ltd.	Chemicals	238,500	1,520,661
Tata Consultancy Services Ltd.	IT Services	97,300	3,680,039
[b] Tata Motors Ltd., A	Automobiles	252,016	1,089,208
			30,733,707

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Indonesia 3.1%			
Astra International Tbk PT	Automobiles	10,115,100	$ 5,665,222
Bank Danamon Indonesia Tbk PT	Banks	5,707,000	1,529,066
Semen Indonesia (Persero) Tbk PT	Construction Materials	2,764,700	1,956,476
			9,150,764
Mexico 0.6%			
America Movil SAB de CV, L, ADR	Wireless Telecommunication Services	82,000	1,005,320
Nemak SAB de CV	Auto Components	652,700	764,463
[b] Telesites SAB de CV	Diversified Telecommunication Services	82,000	50,690
			1,820,473
Nigeria 0.0%†			
Nigerian Breweries PLC	Beverages	167,352	79,635
Pakistan 1.0%			
Habib Bank Ltd.	Banks	1,550,000	2,915,036
Peru 0.1%			
[b] Compania de Minas Buenaventura SA, ADR	Metals & Mining	29,800	356,110
Philippines 0.4%			
[b] Bloomberry Resorts Corp.	Hotels, Restaurants & Leisure	9,038,300	1,274,135
Russia 3.3%			
LUKOIL PJSC, ADR	Oil, Gas & Consumable Fuels	41,300	1,725,101
LUKOIL PJSC, ADR (London Stock Exchange)	Oil, Gas & Consumable Fuels	38,600	1,612,322
[a,b] Mail.ru Group Ltd., GDR, Reg S	Internet Software & Services	170,359	3,100,534
[b] Yandex NV, A	Internet Software & Services	150,078	3,279,204
			9,717,161
Singapore 0.1%			
DBS Group Holdings Ltd.	Banks	25,196	294,828
South Africa 8.5%			
Massmart Holdings Ltd.	Food & Staples Retailing	190,769	1,632,387
MTN Group Ltd.	Wireless Telecommunication Services	317,596	3,082,568
Naspers Ltd., N	Media	97,448	14,823,942
Remgro Ltd.	Diversified Financial Services	331,043	5,725,189
			25,264,086
South Korea 12.5%			
Daelim Industrial Co. Ltd.	Construction & Engineering	38,487	2,537,443
Fila Korea Ltd.	Textiles, Apparel & Luxury Goods	33,470	2,639,297
Hankook Tire Co. Ltd.	Auto Components	21,600	955,636
Hanon Systems	Auto Components	196,951	1,793,974
Hyundai Development Co.	Construction & Engineering	113,940	3,909,231
iMarketkorea Inc.	Trading Companies & Distributors	70,490	709,340
Interpark Holdings Corp.	Internet & Catalog Retail	112,922	583,839
KT Skylife Co. Ltd.	Media	176,060	2,474,254
Samsung Electronics Co. Ltd.	Technology Hardware, Storage & Peripherals	12,667	15,658,757
SK Hynix Inc.	Semiconductors & Semiconductor Equipment	185,090	5,202,315
Youngone Corp.	Textiles, Apparel & Luxury Goods	22,200	797,300
			37,261,386
Taiwan 9.9%			
Catcher Technology Co. Ltd.	Technology Hardware, Storage & Peripherals	308,000	2,271,386

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Taiwan (continued)			
Hon Hai Precision Industry Co. Ltd.	Electronic Equipment, Instruments & Components	2,455,000	$ 6,289,008
Largan Precision Co. Ltd.	Electronic Equipment, Instruments & Components	14,000	1,280,236
Pegatron Corp.	Technology Hardware, Storage & Peripherals	973,800	2,050,105
Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductors & Semiconductor Equipment	3,483,000	17,574,523
			29,465,258
Thailand 4.7%			
Kasikornbank PCL, fgn.	Banks	604,100	2,967,177
Kiatnakin Bank PCL, fgn.	Banks	1,009,800	1,250,749
Land and Houses PCL, fgn.	Real Estate Management & Development	4,853,900	1,250,791
PTT Exploration and Production PCL, fgn.	Oil, Gas & Consumable Fuels	584,500	1,393,846
Siam Commercial Bank PCL, fgn.	Banks	306,400	1,212,688
Thai Beverage PCL, fgn.	Beverages	8,564,600	5,786,677
			13,861,928
United Kingdom 5.2%			
Unilever PLC	Personal Products	321,139	15,325,519
Total Common Stocks (Cost $240,029,348)			257,924,246
[c] **Participatory Notes 1.0%**			
Saudi Arabia 1.0%			
[d] Deutsche Bank AG/London, Samba Financial Group, 144A, 9/27/16	Banks	143,055	762,766
[d] HSBC Bank PLC,			
Saudi Basic Industries Corp., 144A, 10/31/16	Chemicals	102,390	2,211,064
Savola Al-Azizia United Co., 144A, 2/06/17	Food Products	2,500	24,394
Total Participatory Notes (Cost $3,135,038)			2,998,224
Preferred Stocks 5.8%			
Brazil 5.8%			
[e] Banco Bradesco SA, 4.4%, ADR, pfd.	Banks	1,054,850	8,238,378
[e] Itau Unibanco Holding SA, 3.8%, ADR, pfd.	Banks	964,711	9,106,872
Total Preferred Stocks (Cost $13,340,627)			17,345,250
Total Investments before Short Term Investments (Cost $256,505,013)			278,267,720

Templeton Developing Markets VIP Fund (continued)

	Shares	Value
Short Term Investments (Cost $19,660,526) 6.6%		
Money Market Funds 6.6%		
United States 6.6%		
[b,f] Institutional Fiduciary Trust Money Market Portfolio	19,660,526	$ 19,660,526
Total Investments (Cost $276,165,539) 100.2%		297,928,246
Other Assets, less Liabilities (0.2)%		(555,483)
Net Assets 100.0%		$297,372,763

See Abbreviations on page TD-24.

[†] Rounds to less than 0.1% of net assets.

[a] Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2016, the aggregate value of these securities was $3,283,415, representing 1.1% of net assets.

[b] Non-income producing.

[c] See Note 1(c) regarding Participatory Notes.

[d] 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, 2016, the aggregate value of these securities was $2,998,224, representing 1.0% of net assets.

[e] Variable rate security. The rate shown represents the yield at period end.

[f] See Note 3(e) regarding investments in affiliated management investment companies.

Financial Statements

Statement of Assets and Liabilities
June 30, 2016 (unaudited)

	Templeton Developing Markets VIP Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$256,505,013
Cost - Non-controlled affiliates (Note 3e)	19,660,526
Total cost of investments	$276,165,539
Value - Unaffiliated issuers	$278,267,720
Value - Non-controlled affiliates (Note 3e)	19,660,526
Total value of investments	297,928,246
Cash	66,447
Foreign currency, at value (cost $145,410)	145,191
Receivables:	
Investment securities sold	631,136
Capital shares sold	48,269
Dividends	942,318
Foreign tax	51,726
Other assets	122
Total assets	299,813,455
Liabilities:	
Payables:	
Investment securities purchased	1,404,468
Capital shares redeemed	356,909
Management fees	290,870
Distribution fees	86,818
Deferred tax	181,511
Accrued expenses and other liabilities	120,116
Total liabilities	2,440,692
Net assets, at value	$297,372,763
Net assets consist of:	
Paid-in capital	$324,511,157
Distributions in excess of net investment income	(4,380,311)
Net unrealized appreciation (depreciation)	21,535,884
Accumulated net realized gain (loss)	(44,293,967)
Net assets, at value	$297,372,763

Statement of Assets and Liabilities (continued)
June 30, 2016 (unaudited)

	Templeton Developing Markets VIP Fund
Class 1:	
Net assets, at value	$ 81,400,243
Shares outstanding	11,675,684
Net asset value and maximum offering price per share	$ 6.97
Class 2:	
Net assets, at value	$209,100,296
Shares outstanding	30,194,223
Net asset value and maximum offering price per share	$ 6.93
Class 4:	
Net assets, at value	$ 6,872,224
Shares outstanding	987,522
Net asset value and maximum offering price per share	$ 6.96

Statement of Operations

for the six months ended June 30, 2016 (unaudited)

	Templeton Developing Markets VIP Fund
Investment income:	
Dividends (net of foreign taxes of $512,365)	$ 3,333,470
Expenses:	
Management fees (Note 3a)	1,695,727
Distribution fees: (Note 3c)	
Class 2	238,127
Class 4	11,849
Custodian fees (Note 4)	36,749
Reports to shareholdersr	107,600
Professional fees	32,423
Trustees' fees and expenses	747
Other	9,497
Total expenses	2,132,719
Expenses waived/paid by affiliates (Note 3e)	(35,065)
Net expenses	2,097,654
Net investment income	1,235,816
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	3,017,201
Foreign currency transactions	17,003
Net realized gain (loss)	3,034,204
Net change in unrealized appreciation (depreciation) on:	
Investments	23,613,299
Translation of other assets and liabilities denominated in foreign currencies	(5,840)
Change in deferred taxes on unrealized appreciation	(61,659)
Net change in unrealized appreciation (depreciation)	23,545,800
Net realized and unrealized gain (loss)	26,580,004
Net increase (decrease) in net assets resulting from operations	$27,815,820

Statements of Changes in Net Assets

	Templeton Developing Markets VIP Fund	
	Six Months Ended June 30, 2016 (unaudited)	Year Ended December 31, 2015
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 1,235,816	$ 1,869,006
Net realized gain (loss)	3,034,204	(40,238,876)
Net change in unrealized appreciation (depreciation)	23,545,800	(29,184,006)
Net increase (decrease) in net assets resulting from operations	27,815,820	(67,553,876)
Distributions to shareholders from:		
Net investment income:		
Class 1	(875,960)	(2,280,023)
Class 2	(1,674,699)	(4,605,588)
Class 4	(44,436)	(178,865)
Net realized gains:		
Class 1	—	(12,555,712)
Class 2	—	(29,329,089)
Class 4	—	(1,242,906)
Total distributions to shareholders	(2,595,095)	(50,192,183)
Capital share transactions: (Note 2)		
Class 1	(2,381,952)	(3,228,881)
Class 2	(833,043)	21,548,017
Class 4	(862,694)	(748,959)
Total capital share transactions	(4,077,689)	17,570,177
Net increase (decrease) in net assets	21,143,036	(100,175,882)
Net assets:		
Beginning of period	276,229,727	376,405,609
End of period	$297,372,763	$ 276,229,727
Distributions in excess of net investment income included in net assets:		
End of period	$ (4,380,311)	$ (3,021,032)

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. 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 as of 4 p.m. Eastern time each day the New York Stock Exchange (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 Committee (VC). The VC 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 4 p.m. Eastern time whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time 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 VC 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 VC 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 VC 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 4 p.m. Eastern time. 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 VC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds).

Templeton Developing Markets VIP Fund (continued)

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.

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, net of fees paid to the securities lending agent and/or third-party vendor, 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, 2016, the Fund had no securities on loan.

e. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to

Templeton Developing Markets VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

e. Income and Deferred Taxes *(continued)*

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 may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of June 30, 2016, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). 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. 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, 2016, 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, 2016		Year Ended December 31, 2015	
	Shares	**Amount**	**Shares**	**Amount**
Class 1 Shares:				
Shares sold	778,391	$ 5,167,288	1,121,738	$ 9,288,141
Shares issued in reinvestment of distributions	130,351	875,960	1,921,727	14,835,735
Shares redeemed	(1,315,296)	(8,425,200)	(3,309,863)	(27,352,757)
Net increase (decrease)	(406,554)	$ (2,381,952)	(266,398)	$ (3,228,881)
Class 2 Shares:				
Shares sold	3,196,718	$ 20,939,741	4,635,193	$ 35,599,642
Shares issued in reinvestment of distributions	251,079	1,674,699	4,430,114	33,934,677
Shares redeemed	(3,648,421)	(23,447,483)	(5,930,164)	(47,986,302)
Net increase (decrease)	(200,624)	$ (833,043)	3,135,143	$ 21,548,017
Class 4 Shares:				
Shares sold	29,812	$ 196,593	96,241	$ 723,497
Shares issued in reinvestment of distributions	6,622	44,436	184,886	1,421,771
Shares redeemed	(169,843)	(1,103,723)	(364,639)	(2,894,227)
Net increase (decrease)	(133,409)	$ (862,694)	(83,512)	$ (748,959)

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
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

Templeton Developing Markets VIP Fund (continued)

3. Transactions With Affiliates (continued)

a. Management Fees *(continued)*

For the period ended June 30, 2016, the annualized effective investment management fee rate was 1.245% of the Fund's average daily net assets.

b. Administrative Fees

Under an agreement with TAML, FT Services provides administrative services to the Fund. The fee is paid by TAML based on 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. 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 Affiliated Management Investment Companies

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. Prior to January 1, 2014, the waiver was accounted for as a reduction to management fees.

	Number of Shares Held at Beginning of Period	Gross Additions	Gross Reductions	Number of Shares Held at End of Period	Value at End of Period	Investment Income	Realized Gain (Loss)	% of Affiliated Fund Shares Outstanding Held at End of Period
Non-Controlled Affiliates								
Institutional Fiduciary Trust Money Market Portfolio	36,108,301	25,230,444	(41,678,219)	19,660,526	$19,660,526	$ —	$ —	0.1%

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, 2016, there were no credits earned.

5. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains, if any.

Templeton Developing Markets VIP Fund (continued)

At December 31, 2015, capital loss carryforwards were as follows:

Capital loss carryforwards not subject to expiration:	
Short term	$22,864,241
Long term	18,453,194
Total capital loss carryforwards	$41,317,435

At June 30, 2016, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$286,569,446
Unrealized appreciation	$ 43,397,312
Unrealized depreciation	(32,038,512)
Net unrealized appreciation (depreciation)	$ 11,358,800

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of corporate actions and wash sales.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the period ended June 30, 2016, aggregated $38,758,493 and $28,055,332, 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 10, 2017. 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. Effective February 12, 2016, the annual commitment fee is 0.15%. These fees are reflected in other expenses in the Statement of Operations. During the period ended June 30, 2016, 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.)

Templeton Developing Markets VIP Fund (continued)

9. Fair Value Measurements (continued)

- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

A summary of inputs used as of June 30, 2016, in valuing the Fund's assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities				
Equity Investments:[a]				
Russia	$ 7,992,060	$1,725,101	$ —	$ 9,717,161
All Other Equity Investments[b]	265,552,335	—	—	265,552,335
Participatory Notes	—	2,998,224	—	2,998,224
Short Term Investments	19,660,526	—	—	19,660,526
Total Investments in Securities	$293,204,921	$4,723,325	$ —	$297,928,246

[a]Includes common and preferred stocks.
[b]For detailed categories, see the accompanying Statement of Investments.

10. 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

Tax Information (unaudited)

Templeton Developing Markets VIP Fund

At December 31, 2015, more than 50% of the Fund's total assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from income paid to the Fund on these investments. As shown in the table below, the Fund hereby reports to shareholders the foreign source income and foreign taxes paid, pursuant to Section 853 of the Internal Revenue Code. This written statement will allow shareholders of record on June 14, 2016, 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	$0.0167	$0.1053
Class 2	$0.0167	$0.0864
Class 4	$0.0167	$0.0739

Foreign Tax Paid Per Share (Column 1) is the amount per share available to you, as a tax credit (assuming you held your shares in the Fund for a minimum of 16 days during the 31-day period beginning 15 days before the ex-dividend date of the Fund's distribution to which the foreign taxes relate), or, as a tax deduction.

Foreign Source Income Per Share (Column 2) is the amount per share of income dividends attributable to foreign securities held by the Fund, plus any foreign taxes withheld on these dividends.

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Index Descriptions

The indexes are unmanaged and include reinvestment of any income or distributions. They do not reflect any fees, expenses or sales charges.

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See www.franklintempletondatasources.com for additional data provider information.

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.

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.

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 6/30/16, there were 313 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 6/30/16, there were 72 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 6/30/16, there were 55 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 6/30/16, there were 109 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 All Country World Index (ACWI) ex USA Index captures large- and mid-capitalization representation across 22 of 23 developed markets countries (excluding the U.S.) and 23 emerging markets countries. The index covers approximately 85% of the global equity opportunity set outside the U.S.

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 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 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 12, 2016, the Board of Trustees (Board), including a majority of trustees that are not "interested persons" as such term is defined in section 2(a)(19) of the Investment Company Act of 1940 (hereinafter referred to as "non-interested Trustees" or "independent Trustees"), approved renewal of the investment management agreement and investment sub-advisory agreement, as applicable, 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, risk control, pricing, brokerage commissions and execution, and other services provided by each Investment Manager and investment sub-adviser (Manager(s)) and their affiliates, as well as marketing support payments made to financial intermediaries. Information furnished specifically in connection with the renewal process included reports for each Fund prepared by Broadridge Financial Solutions, Inc. (Broadridge), an independent organization, as well as additional material, including a Fund profitability analysis prepared by management. The Broadridge reports, which utilize data from Lipper, Inc. (Lipper), 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 Managers and their 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 and an analysis concerning transfer agent fees charged by an affiliate of the Managers. The Board also received a report on all marketing support payments made by FTI to financial intermediaries during the past year, as well as a memorandum relating to third-party servicing arrangements in response to a Guidance Update from the U.S. Securities and Exchange Commission (SEC) relating to mutual fund distribution and sub-accounting fees.

In considering such materials, the independent Trustees received assistance and advice from and met separately with independent counsel. While the investment management agreements and investment sub-advisory agreements, as applicable, 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 and investment sub-advisory agreement, as applicable, 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 each investment management agreement and investment sub-advisory agreement, as applicable, was in the best interests of such 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 Managers and their affiliates to the Funds and their shareholders, except as noted later with respect to investment performance and expenses. 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. Additionally, the Board noted the Managers' continued attention to pricing and valuation issues, particularly with respect to complex securities. Among other factors taken into account by the Board was the Managers' 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 pre-designated list of funds within such person's fund management area so as to be aligned with the interests of shareholders. The Board also took into account the quality of transfer agent and shareholder services provided Fund shareholders by an affiliate of the Manager and steps taken by FTI to enhance analytical support to the investment management groups and provide additional oversight of liquidity risk and complex securities. 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 Managers' parent company and its commitment to the mutual fund business as evidenced by its continued introduction of new funds and reassessment of the fund offerings in response to the market environment.

INVESTMENT PERFORMANCE. The Board placed significant emphasis on the investment performance of each of the Funds in view of its importance to shareholders. While consideration was given to performance reports and discussions with portfolio managers at Board meetings throughout the year, particular attention in assessing performance was given to the Broadridge reports furnished for the agreement renewals of all Funds. The Broadridge 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, 2016, 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 consisted of the Fund and all multi-cap growth funds underlying variable insurance products as selected by Lipper. The Broadridge report showed the Fund's comparative 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 middle performing quintile of such universe for the previous three-year period, the lowest performing quintile of such universe for the previous five-year period, and the second-lowest performing quintile of such universe for the previous 10-year period. The Board discussed with management the impact of measures it had taken to improve the performance of the Fund and found the Fund's total return for the past year as shown in the Broadridge report to be acceptable, noting that it exceeded the median by 25 basis points.

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 operation less than 10 years. The Broadridge 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 Broadridge 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 also be in the lowest performing quintile of such universe for the previous three- and five-year periods. In assessing the relevance of such comparative performance, the Board noted the Fund is not actively managed and that its performance reflects those of the three underlying funds in which it invests in equal portions, which are not perfectly aligned to the investment style of comparative funds. The Board found the Fund's performance as shown in the Broadridge report to be acceptable in light of the unique investment strategy of the Fund.

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 Broadridge 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 also 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 Broadridge 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 Broadridge 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 Broadridge report showed the Fund's total return for the one-year period to be in the highest performing quintile of its performance universe, and on an annualized basis to be in the second-highest performing quintile of such universe for each of the previous three-, five-, and 10-year periods. The Board found the Fund's comparative performance as shown in the Broadridge 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 Broadridge 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 quintile 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 Broadridge 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 lowest performing quintile of such universe for the previous three-year period, and in 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 shown in the Broadridge report to be acceptable given 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 Broadridge 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 Broadridge 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 lowest performing quintile of such universe for the previous three- and five-year periods, and the middle performing quintile of such universe for the previous 10-year period. The Board found the Fund's comparative performance as shown in the Broadridge report to be acceptable, noting the Fund's income objective.

Franklin Large Cap Growth VIP Fund – The performance universe for this Fund consisted of the Fund and all multi-cap growth funds underlying variable insurance products as selected by Lipper. The Broadridge report showed the Fund's total return to be in the second-highest performing quintile of such universe for the one-year period, and on an annualized basis to be in the middle performing quintile of such universe for the previous three-, five- and 10-year periods. The Board found the Fund's comparative performance as shown in the Broadridge report to be acceptable.

Franklin Mutual Global Discovery VIP Fund – The performance universe for this Fund consisted of the Fund and all global multi-cap value funds underlying variable insurance products as selected by Lipper. The Broadridge 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 also 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 Broadridge report to be satisfactory.

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 Broadridge 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 second-lowest performing quintile for the previous 10-year period. The Board found the Fund's overall performance as set forth in the Broadridge 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 Broadridge report showed the Fund's comparative total return to be in the highest performing quintile of the 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, the second-highest performing quintile of such universe for the previous five-year period, and the highest performing quintile of such universe for the previous 10-year period. The Board found the Fund's comparative performance as set forth in the Broadridge report to be satisfactory.

Franklin Small Cap Value VIP Fund – The performance universe for this Fund consisted of the Fund and all small-cap value funds underlying variable insurance products as selected by Lipper. The Broadridge report showed the Fund's total return for the one-year period to be in the highest performing quintile of such performance universe, and on an annualized basis to be in the 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 Broadridge report to be satisfactory, noting the Fund's improved performance over the past year.

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 Broadridge 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 the previous three-year period, and the second-lowest performing quintile of such universe for each of the previous five- and 10-year periods. The Board discussed with management its ongoing attention to the Fund. The Board found the Fund's performance to be acceptable and noted that the three-year annualized total return performance was eight basis points above 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 Broadridge 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-, five- and 10-year periods. The Broadridge report showed the Fund's total return to be in the lowest performing quintile of such universe during the one-year period, and on an annualized basis to be in the second-lowest 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 found the Fund's performance as shown in the Broadridge report to be acceptable, noting its income orientation.

Franklin U.S. Government Securities VIP Fund – The performance universe for this Fund consisted of the Fund and all general U.S. government funds underlying variable insurance products as selected by Lipper. The Broadridge report showed the Fund's income return for the one-year period to be in the highest quintile of such universe, and on an annualized basis to also be in the highest quintile of such universe for each of the previous three-, five- and 10-year periods. The Broadridge 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 middle performing quintile of such universe for the previous three- and 10-year periods, and in the second-lowest performing quintile of such universe for the previous five-year period. The Board found the Fund's comparative performance as shown in the Broadridge report to be satisfactory, noting the Fund's income objective and the nature of the Fund's investments, which were primarily in U.S. mortgage backed securities.

Franklin Volsmart Allocation VIP Fund – The performance universe for this Fund consisted of the Fund and all flexible portfolio funds underlying variable insurance products as selected by Lipper. The Fund has been in existence for less than three years and the Broadridge report showed its total return for the one-year period to be in the second-lowest performing quintile of such performance universe. The Board was found the Fund's performance as shown in the Broadridge report to be acceptable, given its short period of existence.

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 Broadridge 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 also be in the lowest performing quintile of such universe for the previous three-year period and in the second-lowest performing quintile of such universe for each of the previous five- and 10-year periods. The Board found the performance of the Fund as set forth in the Broadridge report to be unacceptable and discussed with management measures it was implementing to address 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 given management's attention to the Fund.

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 Broadridge 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 lowest performing quintile of such universe for the previous three-year period, in the second-lowest performing quintile of such universe for the previous five-year period, and in the second-highest performing quintile of such universe for the previous 10-year period. The Board found the Fund's comparative investment performance as set forth in the Broadridge report to be acceptable, noting that performance was in the highest or second-highest quintile in seven of the previous eight 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 Broadridge 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-, five- and 10-year periods. The Broadridge report showed the Fund's total return for the one-year period to be in the second-lowest performing quintile of its performance universe, and on an annualized basis to be in the highest performing quintile of such universe for each of the previous three-, five- and 10-year annualized periods. The Board was satisfied with the Fund's comparative performance as set forth in the Broadridge 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 Broadridge 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 each of the previous three- and five-year periods. (Although the Fund has been in operation for 10 years, Lipper comparative data is not available for this longer period.) The Board found the Fund's comparative performance as set forth in the Broadridge report to be acceptable, noting that the Fund's performance had been in the highest or second-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 five- year period and at the median for the 10-year period.

COMPARATIVE EXPENSES. Consideration was given to information contained in the Broadridge reports furnished for each Fund, which compared its management fee and total expense ratio with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Lipper expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market volatility. While recognizing such inherent limitation and the fact that expense ratios generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Lipper to be an appropriate measure of comparative expenses. In reviewing comparative costs, Lipper provides information on the Funds' contractual investment management fee rate in comparison with the contractual investment management fee rate that would have been charged by other funds within its Lipper expense group assuming they were similar in size to the Fund, as well as the actual total expense ratio of the Fund in comparison with those of its Lipper expense group. The Lipper contractual investment management fee analysis includes administrative charges at the fund level as being part of a management fee, and actual total expenses, for comparative consistency, are shown by Lipper for the same class of shares for all funds within a particular Lipper expense group.

The results of such comparisons showed that both the contractual investment management fee rates and actual total expense ratios of the following Funds were in the least expensive quintiles of their respective Lipper expense groups: Franklin 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 Broadridge reports.

The contractual investment management fee rates and actual total expense ratios of each of Franklin Global Real Estate VIP Fund, Franklin Large Cap Growth VIP Fund, Franklin Mutual Global Discovery VIP Fund and Templeton Developing Markets VIP Fund were above the medians of their Lipper expense groups. In the case of contractual management fees, Franklin Mutual Global Discovery VIP Fund exceeds the median by 23.6 basis points, while the other Funds exceed the median by less than 16 basis points. The Board found the comparative contractual investment management fees and expenses of these Funds as shown in their Broadridge reports to be acceptable.

The contractual investment management fee rates of the following Funds were above the median of their Lipper expense groups, while the actual total expense ratios were at the median: Franklin Flex Cap Growth VIP Fund, Franklin Small-Mid Cap

Growth VIP Fund and Templeton Growth VIP Fund. The Board found the comparative expenses of these Funds as shown in the Broadridge reports to be acceptable, noting that a fee waiver was in place for Franklin Flex Cap Growth VIP Fund.

The contractual investment management fee rates of the following Funds were at or above the median of their Lipper expense groups, while the actual total expense ratios were at or below the median: Franklin Founding Funds Allocation VIP Fund and Franklin Mutual Shares VIP Fund. The Board found the comparative expenses of these Funds as shown in their Broadridge reports to be acceptable, noting that a fee waiver was in place for Franklin Founding Funds Allocation VIP Fund.

The contractual investment management fee rate and actual total expense ratio for Franklin Rising Dividends VIP Fund were both below the median of its Lipper expense group. The contractual investment management fee rate for the Franklin Volsmart Allocation VIP Fund was also below the median of its Lipper expense group, while its actual total expense ratio was above the median. The Board found that the investment management fees charged under the investment management agreement and sub-advisory agreements on behalf of Franklin VolSmart Allocation VIP Fund are based on services that are in addition to, rather than duplicative of, services provided pursuant to the investment management contract for an underlying fund in which the Fund may invest. The Board found the comparative expenses of Franklin Rising Dividends VIP Fund and Franklin VolSmart Allocation VIP Fund as shown in the Broadridge reports to be acceptable, noting that the Franklin Volsmart Allocation VIP Fund had a fee waiver in place.

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 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 their Broadridge reports.

MANAGEMENT PROFITABILITY. The Board also considered the level of profits realized by the Managers and their 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, 2015, being the most recent fiscal year-end for Franklin Resources, Inc., the Managers' parent. In reviewing the analysis, the Board recognized that allocation methodologies are inherently subjective and various allocation methodologies may be reasonable while producing different results. In this respect, the Board noted that while management continually makes refinements to its methodologies in response to organizational and product related changes, the overall approach as defined by the primary drivers and activity measurements has remained consistent with that used in the Funds' profitability report presentations from prior years. Additionally, the Funds' independent registered public accounting firm had been engaged by the Manager to periodically review the reasonableness of the allocation methodologies to be used solely by the Funds' Board in reference to the profitability analysis. In reviewing and discussing such analysis, management discussed with the Board its belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by the Managers and their affiliates may not be fully reflected in the expenses allocated to each Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. The Board also took into account management's expenditures in improving services provided the Funds, as well as the need to implement systems to meet additional regulatory and compliance requirements resulting from statutes such as the Sarbanes-Oxley and Dodd-Frank Acts and recent SEC and other regulatory requirements. In addition, the Board considered a third-party study comparing the profitability of the Managers' 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 Managers and their affiliates might derive ancillary benefits from Fund operations, including potential benefits resulting from personnel and systems enhancements necessitated by fund growth, increased leverage with the service providers and counterparties, allocation of fund brokerage and the use of commission dollars to pay for research. Based upon its consideration of all these factors, the Board determined that the level of profits realized by the Managers and their 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 a 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. The Board noted that the Franklin Volsmart Allocation VIP Fund does not have breakpoints but, because it is relatively new, the Board believed that it is not yet of a size to offer economies of scale. 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 Managers and their 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 the Franklin Rising Dividends VIP Fund provides for a fee of 0.750% on the first $500 million of net assets; 0.625% on the next $500 million of net assets; and 0.500% on assets in excess of $1 billion. This Fund had assets of approximately $1.5 billion at December 31, 2015, 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.

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.