August 31, 2017

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, 2017. 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).

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

Thank you for placing your variable annuity contract with us.

Sincerely,

Richard W. Grilli
Senior Vice President and Chief Operating Officer

Enclosure

SUPPLEMENT TO THE CURRENTLY EFFECTIVE PROSPECTUS

Deutsche Global Growth VIP

Class A

On or about October 1, 2017, the following changes are effective:

Deutsche Global Growth VIP will be renamed Deutsche International Growth VIP. All references in the prospectus to Deutsche Global Growth VIP will be replaced with Deutsche International Growth VIP.

The following information replaces the existing similar disclosure in the "FEES AND EXPENSES OF THE FUND" section of the summary section of the fund's prospectus:

SHAREHOLDER FEES

(paid directly from your investment)	None

ANNUAL FUND OPERATING EXPENSES

(expenses that you pay each year as a % of the value of your investment)

Management fee[1]	0.62
Distribution/service (12b-1) fees	None
Other expenses	0.74
Total annual fund operating expenses	1.36
Fee waiver/expense reimbursement	0.55
Total annual fund operating expenses after fee waiver/ expense reimbursement	0.81

[1] "Management fee" is restated to reflect the fund's new management fee rate effective October 1, 2017.

The Advisor has contractually agreed through September 30, 2018 to waive its fees and/or reimburse fund expenses to the extent necessary to maintain the fund's total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expenses) at a ratio no higher than 0.81% for Class A shares. The agreement may only be terminated with the consent of the fund's Board.

EXAMPLE

This Example is intended to help you compare the cost of investing in the fund with the cost of investing in other mutual funds. The Example assumes that you invest $10,000 in the fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the fund's operating expenses (including one year of capped expenses in each period) remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$83	$377	$692	$1,587

The following information replaces the existing disclosure contained in the "PRINCIPAL INVESTMENT STRATEGY" section of the summary section and the "FUND DETAILS" section of the fund's prospectus.

Main Investments. The fund invests primarily in foreign equities (equities issued by foreign based companies and listed on foreign exchanges) and may invest in companies of any size and 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.

The fund will generally invest less than 20% of its assets in US equities.

The following disclosure is added under the "PAST PERFORMANCE" section of the summary section of the fund's prospectus:

Effective on or about October 1, 2017, the comparative broad-based index will change from the MSCI World Index to the MSCI All Country World Index ex USA. The Advisor believes that the MSCI All Country World Index ex USA is more suitable for performance comparison given the fund's investment change.

The following information replaces the existing similar disclosure relating to the fund under the "Management Fee" sub-heading of the "WHO MANAGES AND OVERSEES THE FUND" section of the fund's prospectus:

July 20, 2017
PROSTKR-906

Deutsche
Asset Management

The Advisor has contractually agreed effective October 1, 2017 through September 30, 2018 to waive its fees and/or reimburse fund expenses to the extent necessary to maintain the fund's total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expenses) at a ratio no higher than 0.81% for Class A shares. The waiver may be changed or terminated at any time without notice.

The following information is added to the existing disclosure relating to the fund under the "Management Fee" sub-heading of the "WHO MANAGES AND OVERSEES THE FUND" section of the fund's prospectus:

Effective October 1, 2017, the fund pays the Advisor a management fee, calculated daily and paid monthly, at the annual rate of 0.62% of the fund's average daily net assets.

The following replaces similar disclosure under the "HYPOTHETICAL EXPENSE SUMMARY" heading of the "APPENDIX" section of the fund's prospectus:

Deutsche International Growth VIP — Class A

	Maximum Sales Charge: 0.00%	Initial Hypothetical Investment: $10,000		Assumed Rate of Return: 5%	
Year	**Cumulative Return Before Fees & Expenses**	**Annual Fund Expense Ratios**	**Cumulative Return After Fees & Expenses**	**Hypothetical Year-End Balance After Fees & Expenses**	**Annual Fees & Expenses**
1	5.00%	0.81%	4.19%	$10,419.00	$ 82.70
2	10.25%	1.36%	7.98%	$10,798.25	$ 144.28
3	15.76%	1.36%	11.91%	$11,191.31	$ 149.53
4	21.55%	1.36%	15.99%	$11,598.67	$ 154.97
5	27.63%	1.36%	20.21%	$12,020.86	$ 160.61
6	34.01%	1.36%	24.58%	$12,458.42	$ 166.46
7	40.71%	1.36%	29.12%	$12,911.91	$ 172.52
8	47.75%	1.36%	33.82%	$13,381.90	$ 178.80
9	55.13%	1.36%	38.69%	$13,869.00	$ 185.31
10	62.89%	1.36%	43.74%	$14,373.84	$ 192.05
Total					**$1,587.23**

The following disclosure is added under the "ADDITIONAL INDEX INFORMATION" heading of the "APPENDIX" section of the fund's prospectus.

MSCI All Country World Index ex USA captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets countries. With 1,866 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

Please Retain This Supplement for Future Reference

July 20, 2017
PROSTKR-906

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUS

Deutsche Global Growth VIP

Class A

Effective on or about October 1, 2017, the prospectus is supplemented as follows:

Deutsche Global Growth Fund will be renamed Deutsche International Growth Fund. All references in the summary prospectus to Deutsche Global Growth Fund will be replaced with Deutsche International Growth Fund.

The following information replaces the existing similar disclosure in the "FEES AND EXPENSES OF THE FUND" section of the fund's summary prospectus:

SHAREHOLDER FEES

(paid directly from your investment)	None

ANNUAL FUND OPERATING EXPENSES

(expenses that you pay each year as a % of the value of your investment)

Management fee[1]	0.62
Distribution/service (12b-1) fees	None
Other expenses	0.74
Total annual fund operating expenses	1.36
Fee waiver/expense reimbursement	0.55
Total annual fund operating expenses after fee waiver/ expense reimbursement	0.81

[1] "Management fee" is restated to reflect the fund's new management fee rate effective October 1, 2017.

The Advisor has contractually agreed through September 30, 2018 to waive its fees and/or reimburse fund expenses to the extent necessary to maintain the fund's total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expenses) at a ratio no higher than 0.81% for Class A shares. The agreement may only be terminated with the consent of the fund's Board.

EXAMPLE

This Example is intended to help you compare the cost of investing in the fund with the cost of investing in other mutual funds. The Example assumes that you invest $10,000 in the fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the fund's operating expenses (including one year of capped expenses in each period) remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$83	$377	$692	$1,587

The following information replaces the existing disclosure contained in the "PRINCIPAL INVESTMENT STRATEGY" section of the fund's summary prospectus.

Main Investments. The fund invests primarily in foreign equities (equities issued by foreign based companies and listed on foreign exchanges) and may invest in companies of any size and 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.

The fund will generally invest less than 20% of its assets in US equities.

The following disclosure is added under the "PAST PERFORMANCE" section of the fund's summary prospectus:

Effective on or about October 1, 2017, the comparative broad-based index will change from the MSCI World Index to the MSCI All Country World Index ex USA. The Advisor believes that the MSCI World Index ex USA is more suitable for performance comparison given the fund's investment strategy change.

Please Retain This Supplement for Future Reference

July 20, 2017
PROSTKR-907

Deutsche
Asset Management

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche CROCI® International VIP

The following disclosure replaces the "Management process" and "CROCI® Investment Process" disclosure contained in the "PRINCIPAL INVESTMENT STRATEGY" section of the fund's summary prospectuses.

Management process. Portfolio management will select approximately 50 stocks of companies that it believes offer economic value utilizing the Cash Return on Capital Invested (CROCI®) strategy as the primary factor, in addition to other factors. Under the CROCI® strategy, economic value is measured using various metrics such as the CROCI® Economic Price Earnings Ratio (CROCI® Economic P/E Ratio). The CROCI® Economic P/E Ratio is a proprietary measure of company valuation using the same relationship between valuation and return as an accounting P/E ratio (i.e., price/book value divided by return on equity). The CROCI® Economic P/E Ratio and other CROCI® metrics may be adjusted from time to time. The CROCI® strategy may apply other measures of company valuation, as determined by the CROCI® Investment Strategy and Valuation Group. Portfolio management may use criteria other than the CROCI® strategy in selecting investments. At times, the number of stocks held in the fund may be higher or lower than 50 stocks at the discretion of portfolio management or as a result of corporate actions, mergers or other events. Portfolio management will select stocks primarily from a universe consisting of approximately 330 of the largest companies in developed markets outside North America represented in the CROCI® Investment Strategy and Valuation Group's database of companies evaluated using the CROCI® strategy.

The fund is reviewed periodically and adjusted in accordance with the CROCI® strategy's rules, and the regional weighting in the fund is targeted to match the fund's benchmark. The region-neutral approach attempts to reduce the risk of significant regional over or underweights in the fund relative to the broader international equity market. The CROCI® strategy does not form opinions about relative attractiveness of different regions and targets region neutrality in order to seek to reduce currency risks relative to the fund's benchmark, as well keeping the focus of the strategy on stock selection, rather than regional allocation. During the selection process, certain portfolio selection buffers are applied in an attempt to reduce portfolio turnover. Portfolio management will take additional measures to attempt to reduce portfolio turnover, market impact and transaction costs in connection with implementation of the strategy, by applying liquidity and trading controls and managing the portfolio with tax efficiency in mind.

The CROCI® strategy is supplied by the CROCI® Investment Strategy and Valuation Group, a unit of the Deutsche Bank Group, through a licensing arrangement with the fund's Advisor.

CROCI® Investment Process. The CROCI® Investment Process is based on the belief that the data used in traditional valuations (i.e. accounting data) does not accurately appraise assets, reflect all liabilities or represent the real value of a company. This is because the accounting rules are not always designed specifically for investors and often utilize widely differing standards which can make measuring the real asset value of companies difficult. The CROCI® Investment Process seeks to generate data that will enable valuation comparisons on a consistent basis, resulting in what portfolio management believes is an effective and efficient sector and stock selection process targeting investment in real value.

Please Retain This Supplement for Future Reference

May 26, 2017
PROSTKR-838

Deutsche
Asset Management

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche Mid Cap Growth Fund
Deutsche Small Cap Growth Fund
Deutsche Small Mid Cap Growth VIP

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.

Joseph Axtell, CFA, Managing Director. Portfolio Manager of the fund. Began managing the fund in 2006.

Peter Barsa, Director. Portfolio Manager of the fund. Began managing the fund in 2017.

Michael A. Sesser, CFA, Vice President. Portfolio Manager of the fund. Began managing the fund in 2017.

Please Retain This Supplement for Future Reference

May 30, 2017
PROSTKR-852

Deutsche
Asset Management

Before you invest, you may want to review the Portfolio's Prospectus, which contains more information about the Portfolio and its risks. You can find the Portfolio's Prospectus and other information about the Portfolio online at janushenderson.com/variable-insurance. You can also get this information at no cost by calling a Janus Henderson representative at 1-877-335-2687 or by sending an email request to prospectusrequest@janushenderson.com.

SUMMARY PROSPECTUS DATED MAY 1, 2017
AS SUPPLEMENTED JUNE 5, 2017

Janus Henderson Forty Portfolio

Ticker: JACAX Institutional Shares

INVESTMENT OBJECTIVE

Janus Henderson Forty Portfolio ("Forty Portfolio") seeks long-term growth of capital.

FEES AND EXPENSES OF THE PORTFOLIO

This table describes the fees and expenses that you may pay if you buy and hold Shares of the Portfolio. **Owners of variable insurance contracts that invest in the Shares should refer to the variable insurance contract prospectus for a description of fees and expenses, as the following table and examples do not reflect deductions at the separate account level or contract level for any charges that may be incurred under a contract. Inclusion of these charges would increase the fees and expenses described below.**

ANNUAL FUND OPERATING EXPENSES
(expenses that you pay each year as a percentage of the value of your investment)

Management Fees (may adjust up or down)	0.64%
Other Expenses	0.10%
Total Annual Fund Operating Expenses	0.74%

EXAMPLE:

The Example is intended to help you compare the cost of investing in the Portfolio with the cost of investing in other mutual funds. The Example assumes that you invest $10,000 in the Portfolio for the time periods indicated, reinvest all dividends and distributions, and then redeem all of your Shares at the end of each period. The Example also assumes that your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Institutional Shares	$ 76	$ 237	$ 411	$ 918

Portfolio Turnover: The Portfolio pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the Example, affect the Portfolio's performance. During the most recent fiscal year, the Portfolio's turnover rate was 53% of the average value of its portfolio.

PRINCIPAL INVESTMENT STRATEGIES

The Portfolio pursues its investment objective by normally investing primarily in a core group of 20-40 common stocks selected for their growth potential. The Portfolio may invest in companies of any size, from larger, well-established companies to smaller, emerging growth companies. The Portfolio may also invest in foreign securities, which may include investments in emerging markets. As of December 31, 2016, the Portfolio held stocks of 38 companies. Of these holdings, 20 comprised approximately 71.26% of the Portfolio's holdings.

The portfolio managers apply a "bottom up" approach in choosing investments. In other words, the portfolio managers look at companies one at a time to determine if a company is an attractive investment opportunity and if it is consistent with the Portfolio's investment policies.

The Portfolio may lend portfolio securities on a short-term or long-term basis, in an amount equal to up to one-third of its total assets as determined at the time of the loan origination.

109-56-81225 06-17

PRINCIPAL INVESTMENT RISKS

The biggest risk is that the Portfolio's returns will vary, and you could lose money. The Portfolio is designed for long-term investors seeking an equity portfolio, including common stocks. Common stocks tend to be more volatile than many other investment choices.

Market Risk. The value of the Portfolio's holdings may decrease if the value of an individual company or security, or multiple companies or securities, in the Portfolio decreases or if the portfolio managers' belief about a company's intrinsic worth is incorrect. Further, regardless of how well individual companies or securities perform, the value of the Portfolio's holdings could also decrease if there are deteriorating economic or market conditions. It is important to understand that the value of your investment may fall, sometimes sharply, in response to changes in the market, and you could lose money. Market risk may affect a single issuer, industry, economic sector, or the market as a whole.

Growth Securities Risk. The Portfolio invests in companies after assessing their growth potential. Securities of companies perceived to be "growth" companies may be more volatile than other stocks and may involve special risks. If the portfolio managers' perception of a company's growth potential is not realized, the securities purchased may not perform as expected, reducing the Portfolio's returns. In addition, because different types of stocks tend to shift in and out of favor depending on market and economic conditions, "growth" stocks may perform differently from the market as a whole and other types of securities.

Nondiversification Risk. The Portfolio is classified as nondiversified under the Investment Company Act of 1940, as amended. This gives the portfolio managers more flexibility to hold larger positions in a smaller number of securities. As a result, an increase or decrease in the value of a single security held by the Portfolio may have a greater impact on the Portfolio's NAV and total return.

Foreign Exposure Risk. The Portfolio may have exposure to foreign markets as a result of its investments in foreign securities, including investments in emerging markets, which can be more volatile than the U.S. markets. As a result, its returns and net asset value may be affected to a large degree by fluctuations in currency exchange rates or political or economic conditions in a particular country. In some foreign markets, there may not be protection against failure by other parties to complete transactions. It may not be possible for the Portfolio to repatriate capital, dividends, interest, and other income from a particular country or governmental entity. In addition, a market swing in one or more countries or regions where the Portfolio has invested a significant amount of its assets may have a greater effect on the Portfolio's performance than it would in a more geographically diversified portfolio. To the extent the Portfolio invests in foreign debt securities, such investments are sensitive to changes in interest rates. Additionally, investments in securities of foreign governments involve the risk that a foreign government may not be willing or able to pay interest or repay principal when due. The Portfolio's investments in emerging market countries may involve risks greater than, or in addition to, the risks of investing in more developed countries.

Securities Lending Risk. The Portfolio may seek to earn additional income through lending its securities to certain qualified broker-dealers and institutions. There is the risk that when portfolio securities are lent, the securities may not be returned on a timely basis, and the Portfolio may experience delays and costs in recovering the security or gaining access to the collateral provided to the Portfolio to collateralize the loan. 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.

Management Risk. The Portfolio is an actively managed investment portfolio and is therefore subject to the risk that the investment strategies employed for the Portfolio may fail to produce the intended results. The Portfolio may underperform its benchmark index or other mutual funds with similar investment objectives.

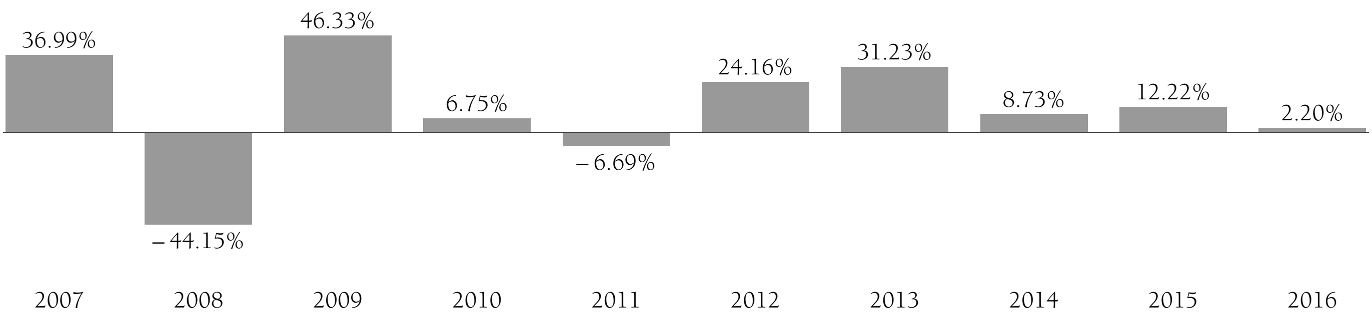
An investment in the Portfolio is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

PERFORMANCE INFORMATION

The following information provides some indication of the risks of investing in the Portfolio by showing how the Portfolio's performance has varied over time. The bar chart depicts the change in performance from year to year during the periods indicated, but does not include charges or expenses attributable to any insurance product, which would lower the performance illustrated. The Portfolio does not impose any sales or other charges that would affect total return computations. Total return figures include the effect of the Portfolio's expenses. The table compares the average annual returns for the Institutional Shares of the Portfolio for the periods indicated to broad-based securities market indices. The indices are not actively managed and are not available for direct investment. All figures assume reinvestment of dividends and distributions.

The Portfolio's past performance does not necessarily indicate how it will perform in the future. Updated performance information is available at janushenderson.com/variable-insurance or by calling 1-877-335-2687.

Annual Total Returns for Institutional Shares (calendar year-end)



Best Quarter: 2nd Quarter 2009 **22.15%** **Worst Quarter:** 3rd Quarter 2008 **– 25.35%**

Average Annual Total Returns (periods ended 12/31/16)

	1 Year	5 Years	10 Years	Since Inception (5/1/97)
Forty Portfolio				
Institutional Shares	2.20%	15.23%	8.52%	10.56%
Russell 1000® Growth Index (reflects no deduction for fees, expenses, or taxes)	7.08%	14.50%	8.33%	6.63%
S&P 500® Index (reflects no deduction for fees, expenses, or taxes)	11.96%	14.66%	6.95%	7.37%

The Portfolio's primary benchmark index is the Russell 1000® Growth Index. The Portfolio also compares its performance to the S&P 500® Index. The Russell 1000® Growth Index is used to calculate the Portfolio's performance fee adjustment. The indices are described below.

- The Russell 1000® Growth Index measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.
- The S&P 500® Index is a commonly recognized, market-capitalization weighted index of 500 widely held equity securities, designed to measure broad U.S. equity performance.

MANAGEMENT

Investment Adviser: Janus Capital Management LLC

Portfolio Managers: **A. Douglas Rao** is Executive Vice President and Co-Portfolio Manager of the Portfolio, which he has managed or co-managed since June 2013. **Nick Schommer**, CFA, is Executive Vice President and Co-Portfolio Manager of the Portfolio, which he has co-managed since January 2016.

PURCHASE AND SALE OF PORTFOLIO SHARES

Purchases of Shares may be made only by the separate accounts of insurance companies for the purpose of funding variable insurance contracts or by certain qualified retirement plans. Redemptions, like purchases, may be effected only through the separate accounts of participating insurance companies or through qualified retirement plans. Requests are duly processed at the NAV next calculated after your order is received in good order by the Portfolio or its agents. Refer to the appropriate separate account prospectus or plan documents for details.

TAX INFORMATION

Because Shares of the Portfolio may be purchased only through variable insurance contracts and certain qualified retirement plans, it is anticipated that any income dividends or net capital gains distributions made by the Portfolio will be exempt from current federal income taxation if left to accumulate within the variable insurance contract or qualified retirement plan. The federal income tax status of your investment depends on the features of your qualified retirement plan or variable insurance contract.

PAYMENTS TO INSURERS, BROKER-DEALERS, AND OTHER FINANCIAL INTERMEDIARIES

Portfolio shares are generally available only through an insurer's variable contracts, or through certain employer or other retirement plans (Retirement Products). Retirement Products are generally purchased through a broker-dealer or other financial intermediary. The Portfolio or its distributor (and/or their related companies) may make payments to the insurer and/or its related companies for distribution and/or other services; some of the payments may go to broker-dealers and other financial intermediaries. These payments may create a conflict of interest for an intermediary, or be a factor in the insurer's decision to include the Portfolio as an underlying investment option in a variable contract. Ask your financial advisor, visit your intermediary's website, or consult your insurance contract prospectus for more information.

PIMCO Variable Insurance Trust

Supplement Dated April 28, 2017 to the PIMCO Low Duration Portfolio Administrative Class Prospectus dated April 28, 2017, as supplemented (the "Prospectus")

Disclosure Regarding the PIMCO Low Duration Portfolio

Effective immediately, the following information replaces the Financial Highlights table in the Prospectus.

Selected Per Share Data for the Year Ended:	Net Asset Value Beginning of Year	Net Investment Income[(a)]	Net Realized/ Unrealized Gain (Loss)	Total from Investment Operations	Dividends from Net Investment Income[(b)]	Tax Basis Return of Capital[(b)]
PIMCO Low Duration Portfolio						
Administrative Class						
12/31/2016	$10.25	$0.14	$0.00	$0.14	$(0.07)	$(0.08)
12/31/2015	10.58	0.14	(0.11)	0.03	(0.36)	0.00
12/31/2014	10.61	0.10	(0.01)	0.09	(0.12)	0.00
12/31/2013	10.78	0.08	(0.09)	(0.01)	(0.16)	0.00
12/31/2012	10.38	0.14	0.46	0.60	(0.20)	0.00

Total Distributions	Net Asset Value End of Year	Total Return	Net Assets End of Year (000s)	Ratio of Expenses to Average Net Assets
$(0.15)	$10.24	1.41%	$1,248,263	0.65%
(0.36)	10.25	0.31	1,323,009	0.66
(0.12)	10.58	0.85	1,481,605	0.65
(0.16)	10.61	(0.14)	1,510,077	0.65
(0.20)	10.78	5.85	1,527,088	0.65

Ratio of Expenses to Average Net Assets Excluding Interest Expense	Ratio of Expenses to Average Net Assets Excluding Interest Expense and Waivers	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
0.65%	0.65%	1.40%	391%
0.65	0.65	1.32	181
0.65	0.65	0.90	208
0.65	0.65	0.79	316
0.65	0.65	1.29	647

(a) Per share amounts based on average number of shares outstanding during the year.
(b) The tax characterization of distributions is determined in accordance with federal income tax regulations. See Note 2 in the Notes to Financial Statements for more information.

Investors Should Retain This Supplement For Future Reference

PVIT_SUPP4_042817

This supplement is not part of the Semiannual Report and is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

PIMCO Variable Insurance Trust

Supplement Dated March 31, 2017 to the PIMCO All Asset Portfolio Administrative Class Prospectus, PIMCO All Asset All Authority Portfolio Administrative Class Prospectus, PIMCO Balanced Allocation Portfolio Administrative Class Prospectus, PIMCO CommodityRealReturn® Strategy Portfolio Administrative Class Prospectus, PIMCO Emerging Markets Bond Portfolio Administrative Class Prospectus, PIMCO Foreign Bond Portfolio (Unhedged) Administrative Class Prospectus, PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class Prospectus, PIMCO Global Core Bond (Hedged) Portfolio Administrative Class Prospectus, PIMCO Global Bond Portfolio (Unhedged) Administrative Class Prospectus, PIMCO Global Diversified Allocation Portfolio Administrative Class Prospectus, PIMCO Global Multi-Asset Managed Allocation Portfolio Administrative Class Prospectus, PIMCO High Yield Portfolio Administrative Class Prospectus, PIMCO Income Portfolio Administrative Class Prospectus, PIMCO Long-Term U.S. Government Portfolio Administrative Class Prospectus, PIMCO Low Duration Portfolio Administrative Class Prospectus, PIMCO Real Return Portfolio Administrative Class Prospectus, PIMCO Short-Term Portfolio Administrative Class Prospectus, PIMCO Total Return Portfolio Administrative Class Prospectus and PIMCO Unconstrained Bond Portfolio Administrative Class Prospectus, each dated April 29, 2016, each as supplemented from time to time (the "Prospectuses")

Effective immediately, the following is added after the second paragraph in the "Administrative Class Shares—Additional Payments" section:

In addition, the Distributor, PIMCO and their affiliates may from time to time make payments and provide other incentives to insurance companies as compensation for services such as providing the Portfolio with a higher profile for the insurance companies' financial advisors and their customers or otherwise identifying the Portfolio as being part of a complex to be accorded a higher degree of marketing support than complexes not making such payments, granting the Distributor access to the insurance companies' financial advisors (including through the insurance companies' intranet websites) in order to promote the Portfolio, promotions in communications with current and prospective Variable Contract owners such as in the insurance companies' internet websites or in customer newsletters, providing assistance in training and educating the insurance companies' personnel, and furnishing marketing support and other specified services. The actual services provided, and the payments made for such services, vary from company to company. These payments may be significant to the insurance companies.

A number of factors will be considered in determining the amount of these additional payments to insurance companies. The Distributor, PIMCO and their affiliates may make payments to one or more insurance companies based upon factors such as the amount of assets an insurance companies' accounts have invested in the Portfolio and the quality of the insurance company's relationship with the Distributor, PIMCO and their affiliates.

The additional payments described above are made from the Distributor's or PIMCO's (or their affiliates') own assets (and sometimes, therefore referred to as "revenue sharing") pursuant to agreements with insurance companies or other financial firms and do not change the price paid by an insurance company's separate account for the purchase of the Portfolio's shares or the amount the Portfolio will receive as proceeds from such sales. These payments may be made to insurance companies (as selected by the Distributor) that have invested significant amounts in shares of the Portfolio. The level of payments made to a financial firm in any future year will vary.

Investors Should Retain This Supplement For Future Reference

PVIT_SUPP4_033117

This supplement is not part of the Semiannual Report and is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

ALGER

THE ALGER PORTFOLIOS

Alger Balanced Portfolio

SEMI-ANNUAL REPORT

JUNE 30, 2017 (UNAUDITED)

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Shareholders' Letter

June 30, 2017

Dear Shareholders,

Economic Strength Sustains Bull Market

The strong bull market continued during the six-month period ended June 30, 2017, and the S&P 500 Index generated a 9.34% return. Large cap growth stocks, broadly speaking, outperformed with the Russell 1000 Growth Index producing a 14.00% gain. The strength of growth stocks extended across mid- and small-cap equities. Emerging markets were also strong during the period with the MSCI Emerging Markets Index generating an 18.60% gain that substantially outperformed the 11.01% return of developed markets as measured by the MSCI World Index.

We maintain that expectations for strengthening economic growth worldwide and improving corporate earnings have been the primary drivers of equity performance. We also believe that ongoing innovation, including medical breakthroughs and internet-based technology, is supporting equities.

Yet, some commentators have attributed equity gains, especially those occurring during the first few months of this year, to the U.S. presidential election and anticipation of pro-growth policies from Washington. Others have said it has been momentum trading. If it were either of those factors, in our opinion, temporary market declines resulting from concerns over Washington's ability to pass meaningful legislation would have been more severe. The unsuccessful early attempts by the House of Representatives to pass health care reform, for example, resulted in a small S&P 500 decline of approximately 2.17% in March. In the middle of May, furthermore, the index dropped only 1.84% in response to allegations that President Donald Trump had previously tried to influence an FBI investigation.

In regard to economic factors, consider the following:

- During the reporting period, the U.S. Consumer Confidence Index climbed from 111.6 to 117.3. Business confidence has also risen.
- Wage growth is continuing with a 3.2% year-over-year increase in June.
- Corporate profits, meanwhile, are strengthening. At the end of the reporting period, Wall Street analysts expected second-quarter S&P 500 earnings per share (EPS) to increase at a high single-digit rate year over year. It would be the fifth consecutive quarter of earnings growth.
- The Conference Board's Leading Economic Indicator Index has been climbing in a fairly steady manner since 2009 and hit a record high of 127.8 in June.

Economic Growth Extends Beyond U.S.

Investor sentiment has also been supported by expectations for improving economic growth globally. Indeed, 2017 may be the first time since 2010 that all G-20 countries simultaneously experience economic growth. In the U.S., this helped support investor sentiment for multinational corporations. The encouraging outlook also helped extend the equity rally beyond the U.S. as illustrated by the strong 18.60% return of the MSCI Emerging Markets Index. Earnings for corporations in both developed and emerging markets during the reporting period continued to strengthen while Purchasing Managers'

Index readings in Europe and China were also encouraging. A perception that geopolitical risks were moderating also supported investors' outlook. It appears that some investors were relieved to see Emmanuel Macron and his newly formed pro-European centrist party, En Marche, win the French presidential and legislative elections.

Our view has consistently been that the economic recovery would be longer and stronger than expected, but also slower in pace due to the severity and nature of the 2008/2009 bear market and recession. While these improving economic conditions are likely to make the Federal Reserve more aggressive in its tightening, we don't believe that monetary policy changes will derail the expansion. We note that the U.S. does not typically enter into a recession until about three years after material Fed tightening, which we maintain is just starting now. Rising equity valuations concern some investors, but growth sectors such as Information Technology and Health Care within the S&P 500 are trading at discounts to their 20-year median price-to-earnings (P/E) ratios. It is also reasonable to argue that with extremely low interest rates, equity multiples should be higher than their current levels.

Skepticism Versus Euphoria

At Alger, we believe bull markets begin in despair and end in euphoria. Based on our observations, we don't believe euphoria for equities currently exists. For the first six months of this year, exchange-traded bond funds and fixed income mutual funds experienced approximately $200 billion in inflows, compared to only $34 billion for similar equity funds. At the same time, it's not unusual to hear commentators claim that a correction is likely, despite strong corporate fundamentals and global economic growth.

One asset class where we continue to see euphoria, however, is fixed income. Investors' craving for fixed income exists despite the expensive valuations of bonds, in our view. Treasury bond yields are normally tightly linked to nominal GDP growth (both averaged 6.5% over the past 50 years), but current 10-year yields are more than two percentage points below next year's estimated nominal GDP growth rate. Keep in mind that a one percentage point increase in interest rates should theoretically cause an 8% decline in the price of a 10-year bond. A historically wide disparity, meanwhile, exists between equity and bond valuations. When considering the wide disparity, two scenarios are possible: fixed income yields will rise and bond returns will be very disappointing or equity yields will fall (i.e. P/E ratios will rise) and stock returns will be strong. Under both scenarios, equities would outperform.

A rotation from bonds and bond-like stocks to equities would also have implications for active investing. Over the past few years, investors have favored bond-like equities (including those with weak fundamentals) as an alternative to low-yielding fixed-income securities. This behavior previously weighed on active managers who generally focus on identifying strong businesses rather than pursuing dividend quality. The fact is that rising interest rates have typically been associated with active investing outperforming passive, and we believe that may be the case going forward. We are optimistic that we have seen the cyclical lows in interest rates and active investing as investors are increasingly focusing on corporate fundamentals rather than dividend yields. Indeed, during the first six months of this year, 54% of active large-cap managers beat their benchmarks, which was the strongest showing since 2009, according to the Bank of America.

Navigating the Ship Forward

While we think that the economic expansion can continue, we believe that a good captain does not simply look at calm waters and expect smooth sailing; rather, it is prudent to be prepared for all weather conditions. As bottom-up fundamental growth investors, we concentrate on building a boat or investment portfolio that we believe can sail through whatever conditions are ahead. Instead of changing course based on which way economic winds are blowing (e.g. rotating to cyclical stocks when the economy is strong or to defensive stocks when it appears to be weakening), we focus on finding companies that can take market share and grow in both good and bad times.

The best risk management we know is to understand our companies as well as or better than anyone else, feel confident in their growth under multiple scenarios, and let the strength of their management teams and competitive advantages create value for our clients. Our research and experience show that there are always areas of the economy that are growing, irrespective of where we are in market or economic cycles. For example, during the Global Financial Crisis that occurred from the second quarter of 2008 until the second quarter of 2011, U.S. GDP was somewhat flat, but U.S. internet advertising and e-commerce grew over 30%. Companies that exploited that growth generated strong returns.

Innovation is Strong

We see many areas that seem poised to grow regardless of economic conditions. They range from established growth industries such as cloud computing and the mobile internet to emerging technologies such as artificial intelligence (AI).

We believe the following factors will support rapid growth of AI:

- Hardware improvements.
- Algorithm development.
- Storage efficiency.

Those factors are driving a revolution in what computers and robots can do, including how they interact with us. It has long been established that technology is increasing at an ever faster rate, as popularized by Moore's Law, but recent advances in the fundamentals that drive AI are simply astounding. For example, CPU deep learning performance has increased by 65 times in four years. These types of technological leaps are allowing computers to actually learn on their own—an AI program named Libratus, developed at Carnegie Mellon, recently beat some of the world's best poker players. The truly incredible thing is not that Libratus won, but that it taught itself and developed its own strategy.

AI will change many industries. In health care, doctors struggle to keep up with technology given the thousands of medical studies that are published each day. Yet, in one experiment, not only did IBM's AI supercomputer, Watson, recommend the same treatments for cancer patients as oncologists 99% of the time, but incredibly it also found additional treatment options that physicians had not identified in 30% of the cases, potentially giving patients new hope. In transportation, cars are learning to drive themselves much more safely with Google, for instance, achieving an error rate of 2 per 10,000 miles driven in 2016, a huge 75% drop from the previous year. Some AI applications are already in use. It is estimated that 35% of Amazon's current sales are generated with its AI-curated personal recommendations.

According to a UBS survey, nearly 90% of large U.S. companies have a cognitive computing project underway and 20% expect machine learning to have a business impact within a year.

Conclusion

Finding areas of growth and companies that we believe will benefit from growth opportunities, no matter what the environment, is our passion and expertise. Regardless of economic conditions, we believe our time-tested philosophy of focusing on Positive Dynamic Change has strong potential for producing attractive results for our clients and partners.

Portfolio Matters

The Alger Balanced Portfolio returned 7.51% for the fiscal six-month period ended June 30, 2017. The equity portion of the Portfolio underperformed the 14.00% return of the Russell 1000 Growth Index and the fixed-income portion underperformed the 2.66% return of the Barclays Capital U.S. Government/Credit Bond Index.

Regarding the equity portion, the largest sector weightings were Information Technology and Financials. The largest sector overweight was Financials and the largest sector underweight was Information Technology. The Financials and Industrials sectors were among the top contributors to relative performance while Information Technology and Health Care were among sectors that detracted from results.

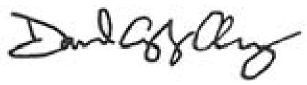
Apple, Inc.; CSX Corp.; Broadcom Ltd.; Microsoft Corp.; and Boeing Co. were among the top contributors to performance. Apple is well known for its iPhone products and other technology. Its stock performed strongly during the first three months of 2017 in response to the company announcing that the number of users of its iOS operating system grew at a double-digit rate. Investor enthusiasm over the iPhone 8 handset also supported performance of Apple stock.

Conversely, Verizon Communications, Inc.; General Electric Co.; Exxon Mobil Corp.; Halliburton Company; and QUALCOMM, Inc. were among the top detractors from performance. QUALCOMM designs and manufactures semiconductors and software for the telecommunications industry. Its chips are vital to the operation of telephone handsets. QUALCOMM share performance weakened following news that Apple had filed a lawsuit seeking to have the company's product pricing reduced.

At the end of the reporting period, the fixed-income portion of the portfolio consisted of 11 corporate bonds, which was the same number as at the start of the reporting period. During the reporting period, the average option-adjusted spread of the corporate sector within the Citigroup Broad Investment Grade Index tightened approximately 22 basis points (bps). It was a slow grind tighter. During the last three months of the reporting period, spreads tightened no more than 2 bps in any day. Leading the way tighter were industrials, specifically the service and manufacturing sectors, which both tightened approximately 26 bps. Financials are approximately 22 bps tighter (led by banking) this year while utilities tightened 14 bps (led by power). High grade issuance, meanwhile, occurred at a similar pace to the first half of 2016. At the end of June of 2017, $886 billion of investment grade paper had been issued compared to $897 billion as of the same time in 2016.

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 preceded 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, 2017. Securities mentioned in the Shareholders' Letter, if not found in the Schedule of Investments, may have been held by the Portfolio during the six-month fiscal period.

A Word About Risk

Growth stocks tend to be more volatile than other stocks as the price of growth stocks tends to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments. Investing in the stock market involves gains and losses and may not be suitable for all investors. Stocks of small- and mid-sized companies are subject to greater risk than stocks of larger, more established companies owing to such factors as limited liquidity, inexperienced management, and limited financial resources. Investing in foreign securities involves additional risk (including currency risk, risks related to political, social or economic conditions, and risks associated with foreign markets, such as increased volatility, limited liquidity, less stringent regulatory and legal system, and lack of industry and country diversification), and may not be suitable for all investors. Investing in emerging markets involves higher levels of risk, including increased information, market, and valuation risks, and may not be suitable for all investors. Portfolios that invest in fixed-income securities, such as the Alger Balanced Portfolio, are subject to the fixed-income securities' sensitivity to interest rate movements; their market values tend to fall when interest rates rise and to rise when interest rates fall. They are also subject to the risk of a decline in the value of the Portfolios' securities in the event of an issuer's falling credit rating or actual default. Portfolios that invest in mortgage- and asset-backed securities are subject to prepayment risk; thus the average life of the security may be less than maturity. For a more detailed discussion of the risks associated with the Portfolio, please see the Portfolio's Prospectus.

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

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

Definitions:

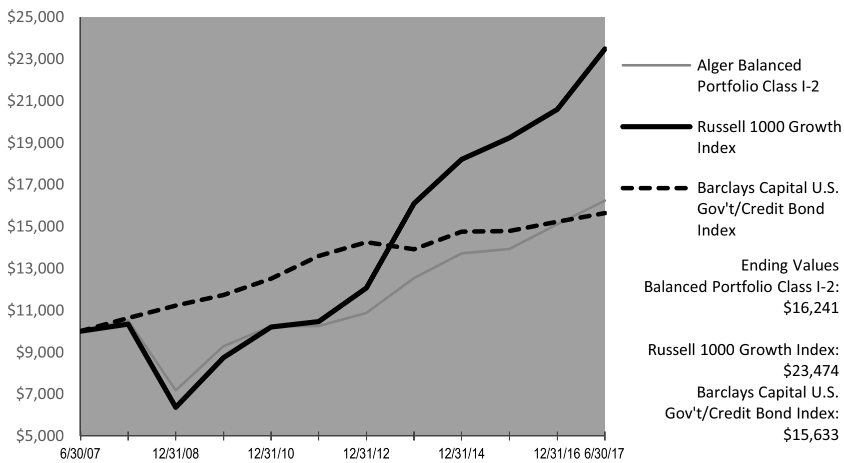
- The S&P 500 Index is an index of large company stocks considered representative of the U.S. stock market.
- The Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.
- The Barclays Capital U.S. Government/Credit Bond Index is an index designed to track performance of government and corporate bonds.
- The U.S. Consumer Confidence Index is an indicator designed to measure consumer confidence, which is defined as the degree of optimism about the state of the economy that consumers are expressing through savings and spending.
- The MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries.
- MSCI Emerging Markets Index is a free float-adjusted market capitalization

index designed to measure equity market performance in the global emerging markets.

- The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment.
- The Conference Board's Leading Economic Indicator Index is based on a variety of economic data and is part of the Conference Board's analytic system that seeks to signal peaks and troughs in the business cycle.
- The Citigroup Broad Investment-Grade Bond Index tracks the performance of US Dollar-denominated bonds issued in the US investment-grade bond market.

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

— 10 years ended 6/30/17



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, 2017. 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 6/30/17

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 9/5/1989
Class I-2 (Inception 9/5/89)	12.66%	9.04%	4.97%	7.59%
Russell 1000 Growth Index	20.42%	15.30%	8.91%	9.25%
Barclays Capital U.S. Gov't/Credit Bond Index	(0.41)%	2.29%	4.57%	6.21%

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, 2017 (Unaudited)

SECTORS/SECURITY TYPES	Alger Balanced Portfolio
Consumer Discretionary	9.5%
Consumer Staples	7.9
Energy	4.0
Financials	11.3
Health Care	10.8
Industrials	8.3
Information Technology	15.8
Materials	1.1
Real Estate	1.9
Telecommunication Services	2.1
Utilities	0.6
Total Equity Securities	73.3
Corporate Bonds	25.7
Total Debt Securities	25.7
Short-Term Investments and Net Other Assets	1.0
	100.0%

† *Based on net assets for each Portfolio.*

COMMON STOCKS—68.9%	SHARES		VALUE
AEROSPACE & DEFENSE—2.3%			
General Dynamics Corp.	3,600	$	713,160
The Boeing Co.	4,994		987,564
			1,700,724
AIR FREIGHT & LOGISTICS—0.3%			
United Parcel Service, Inc., Cl. B	2,163		**239,206**
AIRPORT SERVICES—0.4%			
Macquarie Infrastructure Corp.	4,052		**317,677**
APPAREL RETAIL—0.3%			
The Gap, Inc.	10,270		**225,837**
ASSET MANAGEMENT & CUSTODY BANKS—1.2%			
BlackRock, Inc.	2,100		**887,061**
AUTO PARTS & EQUIPMENT—0.6%			
Delphi Automotive PLC.	5,153		**451,660**
BIOTECHNOLOGY—1.0%			
Amgen, Inc.	2,000		344,460
Gilead Sciences, Inc.	5,200		368,056
			712,516
BREWERS—0.4%			
Molson Coors Brewing Co., Cl. B	3,736		**322,566**
BUILDING PRODUCTS—0.9%			
Johnson Controls International PLC.	14,955		**648,449**
CABLE & SATELLITE—1.7%			
Comcast Corporation, Cl. A	33,006		**1,284,594**
COMMUNICATIONS EQUIPMENT—0.9%			
Cisco Systems, Inc.	20,300		**635,390**
CONSUMER ELECTRONICS—0.4%			
Garmin Ltd.	5,700		**290,871**
CONSUMER FINANCE—0.4%			
Discover Financial Services	4,695		**291,982**
DIVERSIFIED BANKS—3.6%			
JPMorgan Chase & Co.	20,800		1,901,120
Wells Fargo & Co.	14,233		788,651
			2,689,771
DIVERSIFIED CHEMICALS—0.7%			
The Dow Chemical Co.	8,400		**529,788**
DRUG RETAIL—1.2%			
CVS Caremark Corp.	7,700		619,542
Walgreens Boots Alliance, Inc.	3,200		250,592
			870,134
ELECTRICAL COMPONENTS & EQUIPMENT—0.5%			
Eaton Corp., PLC.	4,900		**381,367**
FINANCIAL EXCHANGES & DATA—1.2%			
CME Group, Inc.	6,800		**851,632**
HEALTH CARE EQUIPMENT—0.7%			
Becton Dickinson and Co.	2,600		**507,286**
HOME IMPROVEMENT RETAIL—1.6%			
The Home Depot, Inc.	7,800		**1,196,520**

COMMON STOCKS—(CONT.)	SHARES	VALUE
HOTELS RESORTS & CRUISE LINES—1.1%		
Extended Stay America, Inc.	18,741	$ 362,826
Royal Caribbean Cruises Ltd.	4,300	469,689
		832,515
HOUSEHOLD PRODUCTS—1.1%		
The Procter & Gamble Co.	9,200	**801,780**
HYPERMARKETS & SUPER CENTERS—0.6%		
Wal-Mart Stores, Inc.	5,800	**438,944**
INDUSTRIAL CONGLOMERATES—2.9%		
General Electric Co.	34,907	942,838
Honeywell International, Inc.	8,900	1,186,281
		2,129,119
INDUSTRIAL GASES—0.4%		
Air Products & Chemicals, Inc.	2,296	**328,466**
INTEGRATED OIL & GAS—2.5%		
Exxon Mobil Corp.	16,100	1,299,753
TOTAL SA#	11,300	560,367
		1,860,120
INTEGRATED TELECOMMUNICATION SERVICES—2.1%		
AT&T, Inc.	15,000	565,950
Verizon Communications, Inc.	22,808	1,018,605
		1,584,555
INTERNET RETAIL—0.4%		
Amazon.com, Inc.*	315	**304,920**
INTERNET SOFTWARE & SERVICES—3.6%		
Alphabet, Inc., Cl. A*	1,000	929,680
Alphabet, Inc., Cl. C*	1,003	911,456
Facebook, Inc., Cl. A*	5,400	815,292
		2,656,428
INVESTMENT BANKING & BROKERAGE—1.6%		
Morgan Stanley	26,500	**1,180,840**
LEISURE FACILITIES—0.4%		
Six Flags Entertainment Corp.	5,367	**319,927**
LEISURE PRODUCTS—0.8%		
Coach, Inc.	8,400	397,656
Mattel, Inc.	8,800	189,464
		587,120
MANAGED HEALTH CARE—2.3%		
Aetna, Inc.	5,600	850,248
UnitedHealth Group, Inc.	4,500	834,390
		1,684,638
MOVIES & ENTERTAINMENT—0.7%		
Time Warner, Inc.	5,000	**502,050**
MULTI-LINE INSURANCE—0.6%		
Hartford Financial Services Group, Inc.	8,700	**457,359**
MULTI-UTILITIES—0.6%		
Sempra Energy	3,987	**449,534**
OIL & GAS EQUIPMENT & SERVICES—0.6%		
Halliburton Company	10,000	**427,100**

COMMON STOCKS—(CONT.)	SHARES	VALUE
OIL & GAS EXPLORATION & PRODUCTION—0.5%		
ConocoPhillips	8,819	**$ 387,683**
OTHER DIVERSIFIED FINANCIAL SERVICES—1.1%		
Bank of America Corp.	33,562	**814,214**
PACKAGED FOODS & MEATS—0.5%		
The Kraft Heinz Co.	4,400	**376,816**
PHARMACEUTICALS—6.3%		
Bristol-Myers Squibb Co.	14,200	791,224
Eli Lilly & Co.	10,500	864,150
GlaxoSmithKline PLC.#	10,647	459,099
Johnson & Johnson	9,800	1,296,442
Pfizer, Inc.	30,289	1,017,407
Roche Holding AG#	8,509	270,586
		4,698,908
RAILROADS—1.0%		
CSX Corp.	12,842	**700,660**
RESTAURANTS—1.5%		
Darden Restaurants, Inc.	4,000	361,760
McDonald's Corp.	4,900	750,484
		1,112,244
SEMICONDUCTOR EQUIPMENT—0.9%		
Kla-Tencor Corp.	6,933	**634,439**
SEMICONDUCTORS—3.1%		
Broadcom Ltd.	5,400	1,258,470
Intel Corp.	20,800	701,792
QUALCOMM, Inc.	6,300	347,886
		2,308,148
SOFT DRINKS—2.2%		
PepsiCo, Inc.	10,100	1,166,449
The Coca-Cola Co.	10,600	475,410
		1,641,859
SYSTEMS SOFTWARE—3.1%		
Microsoft Corp.	33,500	**2,309,155**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—4.2%		
Apple, Inc.	16,700	2,405,134
Western Digital Corp.	7,700	682,220
		3,087,354
TOBACCO—1.9%		
Altria Group, Inc.	19,000	**1,414,930**
TOTAL COMMON STOCKS		
(Cost $33,986,325)		**51,066,856**

CONVERTIBLE PREFERRED STOCKS—0.5%	SHARES	VALUE
PHARMACEUTICALS—0.5%		
Allergan PLC., 5.50%, 3/1/2018	400	**347,232**
(Cost $400,000)		**347,232**

MASTER LIMITED PARTNERSHIP—1.5%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—1.1%		
The Blackstone Group LP.	25,500	**850,425**

MASTER LIMITED PARTNERSHIP—(CONT.)	SHARES		VALUE
OIL & GAS STORAGE & TRANSPORTATION—0.4%			
Cheniere Energy Partners LP.	8,200	**$**	**265,680**
TOTAL MASTER LIMITED PARTNERSHIP (Cost $834,065)			**1,116,105**

REAL ESTATE INVESTMENT TRUST—2.4%	SHARES	VALUE
HEALTH CARE—0.5%		
Welltower, Inc.	5,500	**411,675**
MORTGAGE—0.5%		
Blackstone Mortgage Trust, Inc., Cl. A	10,900	**344,440**
SPECIALIZED—1.4%		
Crown Castle International Corp.	5,623	563,312
Lamar Advertising Co., Cl. A	6,300	463,491
		1,026,803
TOTAL REAL ESTATE INVESTMENT TRUST (Cost $1,477,060)		**1,782,918**

CORPORATE BONDS—25.7%	PRINCIPAL AMOUNT		VALUE
AGRICULTURAL & FARM MACHINERY—2.4%			
John Deere Capital Corp., 2.75%, 3/15/2022	1,750,000		**1,780,347**
DIVERSIFIED BANKS—4.9%			
JPMorgan Chase & Co., 4.35%, 8/15/2021	1,500,000		1,606,442
Wells Fargo & Co., 3.30%, 9/9/2024	2,000,000		2,030,566
			3,637,008
INDUSTRIAL CONGLOMERATES—2.9%			
General Electric Co., 6.00%, 8/7/2019	2,000,000		**2,174,254**
INTEGRATED OIL & GAS—1.5%			
Total Capital SA, 4.45%, 6/24/2020	1,000,000		**1,071,320**
INTEGRATED TELECOMMUNICATION SERVICES—2.0%			
Verizon Communications, Inc., 5.15%, 9/15/2023	1,300,000		**1,445,954**
IT CONSULTING & OTHER SERVICES—2.6%			
International Business Machines Corp., 7.00%, 10/30/2025	1,525,000		**1,952,259**
PACKAGED FOODS & MEATS—2.7%			
Campbell Soup Co., 2.50%, 8/2/2022	2,000,000		**2,001,460**
SEMICONDUCTORS—2.2%			
Altera Corp., 4.10%, 11/15/2023	1,500,000		**1,617,316**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—4.5%			
Apple, Inc., 1.80%, 5/11/2020	1,200,000		1,199,798
HP, Inc., 4.38%, 9/15/2021	2,000,000		2,133,662
			3,333,460
TOTAL CORPORATE BONDS (Cost $18,697,629)			**19,013,378**
Total Investments (Cost $55,395,079)[(a)]	99.0%		**73,326,489**
Other Assets in Excess of Liabilities	1.0%		**770,818**
NET ASSETS	100.0%	**$**	**74,097,307**

\# *American Depositary Receipts.*
* *Non-income producing security.*

(a) *At June 30, 2017, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $55,251,204, amounted to $18,075,285 which consisted of aggregate gross unrealized appreciation of $18,782,945 and aggregate gross unrealized depreciation of $707,660.*

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Assets and Liabilities June 30, 2017 (Unaudited)

		Alger Balanced Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedule of investments	$	73,326,489
Cash and cash equivalents		595,404
Receivable for shares of beneficial interest sold		8,638
Dividends and interest receivable		270,951
Prepaid expenses		21,954
Total Assets		74,223,436
LIABILITIES:		
Payable for shares of beneficial interest redeemed		31,173
Accrued investment advisory fees		43,584
Accrued transfer agent fees		2,636
Accrued administrative fees		1,688
Accrued shareholder administrative fees		614
Accrued other expenses		46,434
Total Liabilities		126,129
NET ASSETS	**$**	**74,097,307**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		60,432,137
Undistributed net investment income		2,012,157
Undistributed net realized gain (accumulated realized loss)		(6,278,397)
Net unrealized appreciation on investments		17,931,410
NET ASSETS	**$**	**74,097,307**
* Identified cost	$	55,395,079

See Notes to Financial Statements.

		Alger Balanced Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	74,097,307
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		4,497,988
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share Class I-2	$	16.47

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Operations for the six months ended June 30, 2017 (Unaudited)

		Alger Balanced Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	718,331
Interest		285,667
Other Income		30,000
Total Income		1,033,998
EXPENSES:		
Advisory fees — Note 3(a)		259,548
Shareholder administrative fees — Note 3(f)		3,656
Administration fees — Note 3(b)		10,053
Custodian fees		14,549
Transfer agent fees and expenses — Note 3(f)		8,757
Printing fees		11,575
Professional fees		14,056
Registration fees		9,352
Trustee fees — Note 3(g)		1,553
Fund accounting fees		4,888
Miscellaneous		1,696
Total Expenses		339,683
NET INVESTMENT INCOME		694,315
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:		
Net realized gain on investments		456,357
Net change in unrealized appreciation on investments and foreign currency		4,187,670
Net realized and unrealized gain on investments, and foreign currency		4,644,027
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**5,338,342**
* Foreign withholding taxes	$	7,862

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, 2017	For the Year Ended December 31, 2016
Net investment income	$ 694,315	$ 1,392,748
Net realized gain on investments, and foreign currency	456,357	533,850
Net change in unrealized appreciation on investments and foreign currency	4,187,670	3,624,189
Net increase in net assets resulting from operations	5,338,342	5,550,787
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	—	(1,359,034)
Total dividends and distributions to shareholders	—	(1,359,034)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	(2,775,229)	(8,007,624)
Net decrease from shares of beneficial interest transactions — Note 6	(2,775,229)	(8,007,624)
Total increase (decrease)	2,563,113	(3,815,871)
Net Assets:		
Beginning of period	71,534,194	75,350,065
END OF PERIOD	**$ 74,097,307**	**$ 71,534,194**
Undistributed net investment income	$ 2,012,157	$ 1,317,842

See Notes to Financial Statements.

Alger Balanced Portfolio	Class I-2					
	Six months ended 6/30/2017(i)	Year ended 12/31/2016	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012
Net asset value, beginning of period	$ 15.32	$ 14.39	$ 14.48	$ 13.49	$ 11.84	$ 11.31
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income(ii)	0.15	0.29	0.29	0.29	0.20	0.13
Net realized and unrealized gain (loss) on investments	1.00	0.94	(0.08)	0.98	1.61	0.56
Total from investment operations	1.15	1.23	0.21	1.27	1.81	0.69
Dividends from net investment income	–	(0.30)	(0.30)	(0.28)	(0.16)	(0.16)
Net asset value, end of period	$ 16.47	$ 15.32	$ 14.39	$ 14.48	$ 13.49	$ 11.84
Total return	7.51%	8.51%	1.47%	9.43%	15.28%	6.23%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 74,097	$ 71,534	$ 75,350	$ 96,563	$ 95,577	$ 93,129
Ratio of net expenses to average net assets	0.94%	0.96%	0.92%	0.92%	0.95%	0.95%
Ratio of net investment income (loss) to average net assets	1.90%	1.97%	1.97%	2.09%	1.56%	1.13%
Portfolio turnover rate	2.98%	3.58%	9.64%	24.89%	71.66%	122.50%

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 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 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.

The industry classifications of the Portfolio's investments, as presented in the accompanying Schedule of Investments, represent management's belief as to the most meaningful presentation of the classification of such investments. For Portfolio compliance purposes, the Portfolio's industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or rating group indexes, with the primary source being Global Industry Classification Standard (GICS).

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, time to exit 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 indexes. Because of the inherent uncertainty and often limited markets for restricted securities, the values may significantly differ from the values if there was an active market.

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 meets at least 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 2013-2016. 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 estimates 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, 2017, 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, 2017, the Portfolio paid Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor or Alger Inc.") and an affiliate of Alger Management, $1,699, 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, 2017.

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

(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: 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 term "Alger Fund Complex" refers to the Portfolio, The Alger Funds, The Alger Institutional Funds, The Alger Funds II and Alger Global Growth Fund, each of which is a registered investment company managed by Fred Alger Management, Inc. 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 other funds advised by Alger Management. For the six months ended June 30, 2017, 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, 2017, were as follows:

	PURCHASES	SALES
Alger Balanced Portfolio	$2,517,544	$2,143,156

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 systems.

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, 2017, the Portfolio had no borrowings from its custodian and other funds.

NOTE 6 — Share Capital:

The Portfolio has an unlimited number of authorized shares of beneficial interest of $.001 par value. During the six months ended June 30, 2017 and the year ended December 31, 2016, transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2017		FOR THE YEAR ENDED DECEMBER 31, 2016	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Balanced Portfolio				
Class I-2:				
Shares sold	198,954	$ 3,169,103	424,213	$ 6,295,605
Dividends reinvested	—	—	88,594	1,359,034
Shares redeemed	(371,285)	(5,944,332)	(1,077,316)	(15,662,263)
Net decrease	**(172,331)**	**$ (2,775,229)**	**(564,509)**	**$ (8,007,624)**

NOTE 7 — Income Tax Information:

At December 31, 2016, 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	$ 6,878,629
Total	6,878,629

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 (Post Act) 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, 2016, the Portfolio utilized $592,429 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, 2017, the Portfolio has determined that presenting them by security type and sector is appropriate.

Alger Balanced Portfolio	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
COMMON STOCKS				
Consumer Discretionary	$ 7,108,258	$ 7,108,258	—	—
Consumer Staples	5,867,029	5,867,029	—	—
Energy	2,674,903	2,674,903	—	—
Financials	7,172,859	7,172,859	—	—
Health Care	7,603,348	7,603,348	—	—
Industrials	6,117,202	6,117,202	—	—
Information Technology	11,630,914	11,630,914	—	—
Materials	858,254	858,254	—	—
Telecommunication Services	1,584,555	1,584,555	—	—
Utilities	449,534	449,534	—	—
TOTAL COMMON STOCKS	**$ 51,066,856**	**$ 51,066,856**	**—**	**—**
CONVERTIBLE PREFERRED STOCKS				
Health Care	347,232	347,232	—	—
CORPORATE BONDS				
Consumer Staples	2,001,460	—	2,001,460	—
Energy	1,071,320	—	1,071,320	—
Financials	3,637,008	—	3,637,008	—
Industrials	3,954,601	—	3,954,601	—
Information Technology	6,903,035	—	6,903,035	—
Telecommunication Services	1,445,954	—	1,445,954	—
TOTAL CORPORATE BONDS	**$ 19,013,378**	**—**	**$ 19,013,378**	**—**
MASTER LIMITED PARTNERSHIP				
Energy	265,680	265,680	—	—
Financials	850,425	850,425	—	—
TOTAL MASTER LIMITED PARTNERSHIP	**$ 1,116,105**	**$ 1,116,105**	**—**	**—**
REAL ESTATE INVESTMENT TRUST				
Financials	344,440	344,440	—	—
Real Estate	1,438,478	1,438,478	—	—
TOTAL REAL ESTATE INVESTMENT TRUST	**$ 1,782,918**	**$ 1,782,918**	**—**	**—**
TOTAL INVESTMENTS IN SECURITIES	**$ 73,326,489**	**$ 54,313,111**	**$ 19,013,378**	**—**

On June 30, 2017 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, 2017, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash and Cash equivalents:				
Alger Balanced Portfolio	$ 595,404	—	$595,404	—

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 indexes. 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 derivative instruments for the six months ended June 30, 2017.

NOTE 9 — 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.

The Portfolio invests in companies that are not yet available in the public markets and that are accessible only through private equity investments. The Portfolio may also invest in venture capital or private equity funds, direct private equity investments and other investments that may have limited liquidity. There may be no trading market for these securities, and their sale or transfer may be limited or prohibited by contract or legal requirements, or may be dependent on an exit strategy, such as an initial public offering or the sale of a business, which may not occur, or may be dependent on managerial assistance provided by other investors and their willingness to provide additional financial support. The securities may be able to be liquidated, if at all, at disadvantageous prices. As a result, the Portfolio may be required to hold these positions for several years, if not longer, regardless of adverse price movements. Such positions may cause the Portfolio to be less liquid than would otherwise be the case.

NOTE 10 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to June 30, 2017 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, 2017 and ending June 30, 2017.

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, 2017	Ending Account Value June 30, 2017	Expenses Paid During the Six Months Ended June 30, 2017[(a)]	Annualized Expense Ratio For the Six Months Ended June 30, 2017[(b)]
Alger Balanced Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,075.07	$ 4.78	0.94%
	Hypothetical[(c)]	1,000.00	1,020.18	4.66	0.94

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

(b) Annualized.

(c) 5% annual return before expenses.

Privacy Policy

U.S. Consumer Privacy Notice **Rev. 12/20/16**

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 our affiliates' everyday business purposes — information about your creditworthiness	**No**	**We don't share**
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, Secretary or Assistant 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, maximum drawdown, 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

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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

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.

ALGER

Inspired by Change, Driven by Growth.

ALGER

THE ALGER PORTFOLIOS

Alger Capital Appreciation Portfolio

SEMI-ANNUAL REPORT

JUNE 30, 2017 (UNAUDITED)

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Go Paperless With Alger Electronic Delivery Service

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

Dear Shareholders,

Economic Strength Sustains Bull Market

The strong bull market continued during the six-month period ended June 30, 2017, and the S&P 500 Index generated a 9.34% return. Large cap growth stocks, broadly speaking, outperformed with the Russell 1000 Growth Index producing a 14.00% gain. The strength of growth stocks extended across mid- and small-cap equities. Emerging markets were also strong during the period with the MSCI Emerging Markets Index generating an 18.60% gain that substantially outperformed the 11.01% return of developed markets as measured by the MSCI World Index.

We maintain that expectations for strengthening economic growth worldwide and improving corporate earnings have been the primary drivers of equity performance. We also believe that ongoing innovation, including medical breakthroughs and internet-based technology, is supporting equities.

Yet, some commentators have attributed equity gains, especially those occurring during the first few months of this year, to the U.S. presidential election and anticipation of pro-growth policies from Washington. Others have said it has been momentum trading. If it were either of those factors, in our opinion, temporary market declines resulting from concerns over Washington's ability to pass meaningful legislation would have been more severe. The unsuccessful early attempts by the House of Representatives to pass health care reform, for example, resulted in a small S&P 500 decline of approximately 2.17% in March. In the middle of May, furthermore, the index dropped only 1.84% in response to allegations that President Donald Trump had previously tried to influence an FBI investigation.

In regard to economic factors, consider the following:

- During the reporting period, the U.S. Consumer Confidence Index climbed from 111.6 to 117.3. Business confidence has also risen.
- Wage growth is continuing with a 3.2% year-over-year increase in June.
- Corporate profits, meanwhile, are strengthening. At the end of the reporting period, Wall Street analysts expected second-quarter S&P 500 earnings per share (EPS) to increase at a high single-digit rate year over year. It would be the fifth consecutive quarter of earnings growth.
- The Conference Board's Leading Economic Indicator Index has been climbing in a fairly steady manner since 2009 and hit a record high of 127.8 in June.

Economic Growth Extends Beyond U.S.

Investor sentiment has also been supported by expectations for improving economic growth globally. Indeed, 2017 may be the first time since 2010 that all G-20 countries simultaneously experience economic growth. In the U.S., this helped support investor sentiment for multinational corporations. The encouraging outlook also helped extend the equity rally beyond the U.S. as illustrated by the strong 18.60% return of the MSCI Emerging Markets Index. Earnings for corporations in both developed and emerging markets during the reporting period continued to strengthen while Purchasing Managers'

Index readings in Europe and China were also encouraging. A perception that geopolitical risks were moderating also supported investors' outlook. It appears that some investors were relieved to see Emmanuel Macron and his newly formed pro-European centrist party, En Marche, win the French presidential and legislative elections.

Our view has consistently been that the economic recovery would be longer and stronger than expected, but also slower in pace due to the severity and nature of the 2008/2009 bear market and recession. While these improving economic conditions are likely to make the Federal Reserve more aggressive in its tightening, we don't believe that monetary policy changes will derail the expansion. We note that the U.S. does not typically enter into a recession until about three years after material Fed tightening, which we maintain is just starting now. Rising equity valuations concern some investors, but growth sectors such as Information Technology and Health Care within the S&P 500 are trading at discounts to their 20-year median price-to-earnings (P/E) ratios. It is also reasonable to argue that with extremely low interest rates, equity multiples should be higher than their current levels.

Skepticism Versus Euphoria

At Alger, we believe bull markets begin in despair and end in euphoria. Based on our observations, we don't believe euphoria for equities currently exists. For the first six months of this year, exchange traded bond funds and fixed income mutual funds experienced approximately $200 billion in inflows, compared to only $34 billion for similar equity funds. At the same time, it's not unusual to hear commentators claim that a correction is likely, despite strong corporate fundamentals and global economic growth.

One asset class where we continue to see euphoria, however, is fixed income. Investors' craving for fixed income exists despite the expensive valuations of bonds, in our view. Treasury bond yields are normally tightly linked to nominal GDP growth (both averaged 6.5% over the past 50 years), but current 10-year yields are more than two percentage points below next year's estimated nominal GDP growth rate. Keep in mind that a one percentage point increase in interest rates should theoretically cause an 8% decline in the price of a 10-year bond. A historically wide disparity, meanwhile, exists between equity and bond valuations. When considering the wide disparity, two scenarios are possible: fixed income yields will rise and bond returns will be very disappointing or equity yields will fall (i.e. P/E ratios will rise) and stock returns will be strong. Under both scenarios, equities would outperform.

A rotation from bonds and bond-like stocks to equities would also have implications for active investing. Over the past few years, investors have favored bond-like equities (including those with weak fundamentals) as an alternative to low-yielding fixed-income securities. This behavior previously weighed on active managers who generally focus on identifying strong businesses rather than pursuing dividend quality. The fact is that rising interest rates have typically been associated with active investing outperforming passive, and we believe that may be the case going forward. We are optimistic that we have seen the cyclical lows in interest rates and active investing as investors are increasingly focusing on corporate fundamentals rather than dividend yields. Indeed, during the first six months of this year, 54% of active large-cap managers beat their benchmarks, which was the strongest showing since 2009, according to the Bank of America.

Navigating the Ship Forward

While we think that the economic expansion can continue, we believe that a good captain does not simply look at calm waters and expect smooth sailing; rather, it is prudent to be prepared for all weather conditions. As bottom-up fundamental growth investors, we concentrate on building a boat or investment portfolio that we believe can sail through whatever conditions are ahead. Instead of changing course based on which way economic winds are blowing (e.g. rotating to cyclical stocks when the economy is strong or to defensive stocks when it appears to be weakening), we focus on finding companies that can take market share and grow in both good and bad times.

The best risk management we know is to understand our companies as well as or better than anyone else, feel confident in their growth under multiple scenarios, and let the strength of their management teams and competitive advantages create value for our clients. Our research and experience show that there are always areas of the economy that are growing, irrespective of where we are in market or economic cycles. For example, during the Global Financial Crisis that occurred from the second quarter of 2008 until the second quarter of 2011, U.S. GDP was somewhat flat, but U.S. internet advertising and e-commerce grew over 30%. Companies that exploited that growth generated strong returns.

Innovation is Strong

We see many areas that seem poised to grow regardless of economic conditions. They range from established growth industries such as cloud computing and the mobile internet to emerging technologies such as artificial intelligence (AI).

We believe the following factors will support rapid growth of AI:

- Hardware improvements.
- Algorithm development.
- Storage efficiency.

Those factors are driving a revolution in what computers and robots can do, including how they interact with us. It has long been established that technology is increasing at an ever faster rate, as popularized by Moore's Law, but recent advances in the fundamentals that drive AI are simply astounding. For example, CPU deep learning performance has increased by 65 times in four years. These types of technological leaps are allowing computers to actually learn on their own—an AI program named Libratus, developed at Carnegie Mellon, recently beat some of the world's best poker players. The truly incredible thing is not that Libratus won, but that it taught itself and developed its own strategy.

AI will change many industries. In health care, doctors struggle to keep up with technology given the thousands of medical studies that are published each day. Yet, in one experiment, not only did IBM's AI supercomputer, Watson, recommend the same treatments for cancer patients as oncologists 99% of the time, but incredibly it also found additional treatment options that physicians had not identified in 30% of the cases, potentially giving patients new hope. In transportation, cars are learning to drive themselves much more safely with Google, for instance, achieving an error rate of 2 per 10,000 miles driven in 2016, a huge 75% drop from the previous year. Some AI applications are already in use. It is estimated that 35% of Amazon's current sales are generated with its AI-curated personal recommendations.

According to a UBS survey, nearly 90% of large U.S. companies have a cognitive computing project underway and 20% expect machine learning to have a business impact within a year.

Conclusion

Finding areas of growth and companies that we believe will benefit from growth opportunities, no matter what the environment, is our passion and expertise. Regardless of economic conditions, we believe our time-tested philosophy of focusing on Positive Dynamic Change has strong potential for producing attractive results for our clients and partners.

Portfolio Matters

The Alger Capital Appreciation Portfolio generated a 16.54% return for the fiscal six-month period ended June 30, 2017, compared to the 14.00% return of its benchmark, the Russell 1000 Growth Index.

During the six-month period, the largest portfolio sector weightings were Information Technology and Consumer Discretionary. The largest sector overweight was Information Technology and the largest sector underweight was Consumer Staples. Information Technology and Consumer Discretionary were among sectors that provided the greatest contributions to relative performance while Industrials and Energy were among sectors that detracted from results.

Amazon.com, Inc.; Apple, Inc.; Facebook, Inc., Cl. A; Alphabet, Inc., Cl. C; and Visa, Inc., Cl. A were among the top contributors to performance. Apple is well known for its iPhone products and other technology. Its stock performed strongly during the first three months of 2017 in response to the company announcing that the number of users of its iOS operating system grew at a double-digit rate. Investor enthusiasm over the iPhone 8 handset also supported performance of Apple stock.

Conversely, Anadarko Petroleum Corp.; HD Supply Holdings, Inc.; Halliburton Company; Molson Coors Brewing Co., Cl. B; and Pioneer Natural Resources Co. were among the top detractors from results. Anadarko Petroleum is an independent exploration and production company with natural gas and oil assets, both onshore and offshore in the U.S. and abroad. The company has been generating attractive unit volume growth and it has a number of assets that can be monetized. Its shares performed poorly due to weakening oil prices. In addition, an explosion of one of the company's abandoned pipelines that had been improperly sealed and resulted in the loss of human life raised the prospect of increased regulatory oversight and was a headwind for Anadarko shares.

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 preceded 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, 2017. Securities mentioned in the Shareholders' Letter, if not found in the Schedule of Investments, may have been held by the Portfolio during the six-month fiscal period.

A Word About Risk
Growth stocks tend to be more volatile than other stocks as the price of growth stocks tends to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments. Investing in the stock market involves gains and losses and may not be suitable for all investors. Stocks of small- and mid-sized companies are subject to greater risk than stocks of larger, more established companies owing to such factors as limited liquidity, inexperienced management, and limited financial resources. Investing in foreign securities involves additional risk (including currency risk, risks related to political, social or economic conditions, and risks associated with foreign markets, such as increased volatility, limited liquidity, less stringent regulatory and legal system, and lack of industry and country diversification), and may not be suitable for all investors. Investing in emerging markets involves higher levels of risk, including increased information, market, and valuation risks, and may not be suitable for all investors. Portfolios

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

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

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

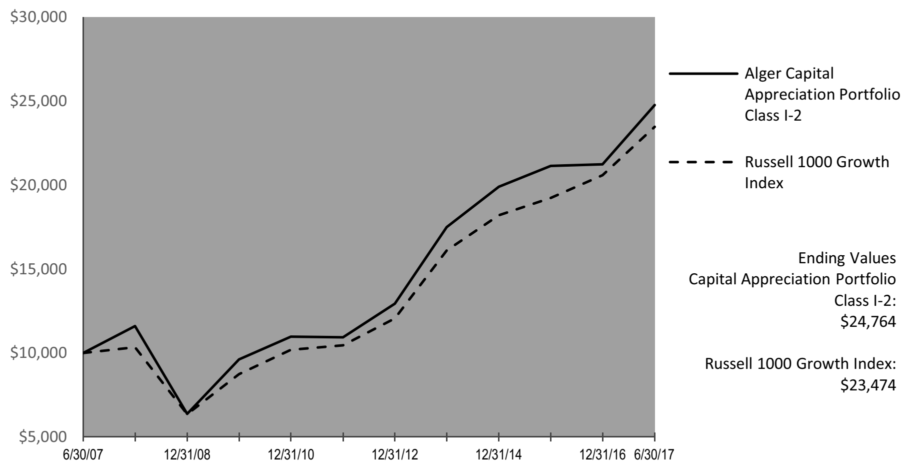
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- The S&P 500 Index is an index of large company stocks considered representative of the U.S. stock market.
- The Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.
- The Conference Board's Leading Economic Indicator Index is based on a variety of economic data and is part of the Conference Board's analytic system that seeks to signal peaks and troughs in the business cycle.
- The U.S. Consumer Confidence Index is an indicator designed to measure consumer confidence, which is defined as the degree of optimism about the state of the economy that consumers are expressing through savings and spending.
- The MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries.
- MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets.
- The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment.

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

— 10 years ended 6/30/17



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 (an unmanaged index of common stocks) for the ten years ended June 30, 2017. 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 6/30/17

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 1/25/1995
Class I-2 (Inception 1/25/95)	20.97%	15.26%	9.49%	13.01%
Class S (Inception 5/1/02)[i]	20.66%	14.94%	9.17%	12.74%
Russell 1000 Growth Index	20.42%	15.30%	8.91%	9.21%

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, 2017 (Unaudited)

SECTORS/SECURITY TYPES	Alger Capital Appreciation Portfolio
Consumer Discretionary	18.5%
Consumer Staples	3.6
Energy	1.9
Financials	5.6
Health Care	14.4
Industrials	5.5
Information Technology	43.4
Materials	1.5
Real Estate	1.8
Telecommunication Services	0.6
Total Equity Securities	96.8
Corporate Bonds	0.0
Short-Term Investments and Net Other Assets	3.2
	100.0%

† *Based on net assets for each Portfolio.*

COMMON STOCKS—93.4%	SHARES	VALUE
AEROSPACE & DEFENSE—0.3%		
General Dynamics Corp.	8,478	**$ 1,679,492**
APPAREL ACCESSORIES & LUXURY GOODS—0.7%		
PVH Corp.	32,007	**3,664,801**
APPLICATION SOFTWARE—4.0%		
Adobe Systems, Inc.*	43,645	6,173,149
Autodesk, Inc.*	69,547	7,011,729
salesforce.com, Inc.*	105,592	9,144,267
		22,329,145
AUTO PARTS & EQUIPMENT—0.4%		
Delphi Automotive PLC.	25,732	**2,255,410**
BIOTECHNOLOGY—4.8%		
ACADIA Pharmaceuticals, Inc.*	39,279	1,095,491
BioMarin Pharmaceutical, Inc.*	28,114	2,553,314
Celgene Corp.*	84,760	11,007,781
Clovis Oncology, Inc.*	18,263	1,709,965
Exact Sciences Corp.*	34,331	1,214,287
Incyte Corp.*	26,726	3,365,071
Vertex Pharmaceuticals, Inc.*	44,668	5,756,365
		26,702,274
BREWERS—0.7%		
Molson Coors Brewing Co., Cl. B	41,748	**3,604,522**
BROADCASTING—1.6%		
CBS Corp., Cl. B	136,089	**8,679,756**
BUILDING PRODUCTS—0.5%		
Johnson Controls International PLC.	63,321	**2,745,599**
CABLE & SATELLITE—2.2%		
Charter Communications, Inc., Cl. A*	5,791	1,950,698
Comcast Corporation, Cl. A	262,618	10,221,093
		12,171,791
CONSTRUCTION MATERIALS—0.2%		
Vulcan Materials Co.	9,739	**1,233,736**
CONSUMER FINANCE—0.2%		
LendingClub Corp.*	194,398	**1,071,133**
DATA PROCESSING & OUTSOURCED SERVICES—3.8%		
Visa, Inc., Cl. A	222,269	**20,844,387**
DIVERSIFIED BANKS—0.6%		
JPMorgan Chase & Co.	33,754	**3,085,116**
DIVERSIFIED CHEMICALS—0.4%		
EI Du Pont de Nemours & Co.	26,897	**2,170,857**
ELECTRICAL COMPONENTS & EQUIPMENT—0.2%		
Rockwell Automation, Inc.	7,016	**1,136,311**
FINANCIAL EXCHANGES & DATA—2.0%		
IntercontinentalExchange Group, Inc.	122,417	8,069,729
S&P Global, Inc.	20,872	3,047,103
		11,116,832
FOOTWEAR—0.3%		
NIKE, Inc., Cl. B	23,698	**1,398,182**

COMMON STOCKS—(CONT.)	SHARES	VALUE
HEALTH CARE EQUIPMENT—3.2%		
Boston Scientific Corp.*	101,662	$ 2,818,071
Danaher Corp.	46,261	3,903,966
DexCom, Inc.*	50,289	3,678,640
Edwards Lifesciences Corp.*	20,644	2,440,946
Medtronic PLC.	52,797	4,685,734
		17,527,357
HEALTH CARE SERVICES—0.2%		
Envision Healthcare Corp.*	14,251	**893,110**
HOME ENTERTAINMENT SOFTWARE—0.9%		
Electronic Arts, Inc.*	45,973	**4,860,266**
HOME IMPROVEMENT RETAIL—1.7%		
The Home Depot, Inc.	62,596	**9,602,226**
HOTELS RESORTS & CRUISE LINES—0.2%		
Marriott International, Inc., Cl. A	10,844	**1,087,762**
HOUSEWARES & SPECIALTIES—1.0%		
Newell Brands, Inc.	102,544	**5,498,409**
HYPERMARKETS & SUPER CENTERS—0.5%		
Wal-Mart Stores, Inc.	35,573	**2,692,165**
INDUSTRIAL CONGLOMERATES—2.8%		
Honeywell International, Inc.	116,398	**15,514,689**
INDUSTRIAL GASES—0.9%		
Air Products & Chemicals, Inc.	34,798	**4,978,202**
INDUSTRIAL MACHINERY—0.5%		
Stanley Black & Decker, Inc.	21,435	**3,016,548**
INTERNET RETAIL—7.6%		
Amazon.com, Inc.*	37,801	36,591,368
Expedia, Inc.	13,194	1,965,247
NetFlix, Inc.*	23,725	3,544,752
		42,101,367
INTERNET SOFTWARE & SERVICES—12.8%		
Alibaba Group Holding Ltd.#*	98,081	13,819,613
Alphabet, Inc., Cl. C*	32,499	29,532,816
eBay, Inc.*	39,223	1,369,667
Facebook, Inc., Cl. A*	164,778	24,878,182
Match Group, Inc.*	39,123	679,958
Palantir Technologies, Inc., Cl. A*,@	41,286	251,019
		70,531,255
INVESTMENT BANKING & BROKERAGE—0.7%		
Morgan Stanley	87,390	**3,894,098**
IT CONSULTING & OTHER SERVICES—0.8%		
Cognizant Technology Solutions Corp., Cl. A	66,031	**4,384,458**
LIFE SCIENCES TOOLS & SERVICES—0.6%		
Illumina, Inc.*	18,130	**3,145,918**
MANAGED HEALTH CARE—4.5%		
Aetna, Inc.	52,689	7,999,771
Humana, Inc.	13,110	3,154,528
UnitedHealth Group, Inc.	75,183	13,940,432
		25,094,731

COMMON STOCKS—(CONT.)	SHARES	VALUE
MOVIES & ENTERTAINMENT—1.3%		
The Walt Disney Co.	38,690	$ 4,110,812
Time Warner, Inc.	29,997	3,011,999
		7,122,811
OIL & GAS EQUIPMENT & SERVICES—0.5%		
Halliburton Company	67,555	**2,885,274**
OIL & GAS EXPLORATION & PRODUCTION—1.4%		
Anadarko Petroleum Corp.	66,605	3,019,871
Pioneer Natural Resources Co.	28,361	4,525,848
		7,545,719
OTHER DIVERSIFIED FINANCIAL SERVICES—0.9%		
Bank of America Corp.	194,356	**4,715,077**
PERSONAL PRODUCTS—0.5%		
The Estee Lauder Companies, Inc., Cl. A	29,458	**2,827,379**
PHARMACEUTICALS—0.9%		
Allergan PLC.	15,281	3,714,658
Bristol-Myers Squibb Co.	27,520	1,533,415
		5,248,073
RAILROADS—0.6%		
Union Pacific Corp.	32,484	**3,537,832**
RESTAURANTS—1.5%		
McDonald's Corp.	42,852	6,563,213
Starbucks Corp.	29,975	1,747,842
		8,311,055
SEMICONDUCTOR EQUIPMENT—0.9%		
Applied Materials, Inc.	115,699	**4,779,526**
SEMICONDUCTORS—5.2%		
Broadcom Ltd.	59,733	13,920,776
Cavium Networks, Inc.*	21,312	1,324,114
Microchip Technology, Inc.	89,401	6,899,969
Micron Technology, Inc.*	140,866	4,206,259
Microsemi Corp.*	23,575	1,103,310
NVIDIA Corp.	8,250	1,192,620
		28,647,048
SOFT DRINKS—0.5%		
PepsiCo, Inc.	26,356	**3,043,854**
SYSTEMS SOFTWARE—7.1%		
Choicestream, Inc.*,@,(a)	23,166	–
Microsoft Corp.	465,929	32,116,486
Oracle Corp.	60,353	3,026,099
Red Hat, Inc.*	12,585	1,205,014
ServiceNow, Inc.*	27,751	2,941,606
		39,289,205
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—7.7%		
Apple, Inc.	246,624	35,518,789
Western Digital Corp.	77,777	6,891,042
		42,409,831
TOBACCO—1.4%		
Philip Morris International, Inc.	64,547	**7,581,045**

COMMON STOCKS—(CONT.)	SHARES	VALUE
TRADING COMPANIES & DISTRIBUTORS—0.6%		
HD Supply Holdings, Inc.*	101,038	**$ 3,094,794**
WIRELESS TELECOMMUNICATION SERVICES—0.6%		
T-Mobile US, Inc.*	52,654	**3,191,885**
TOTAL COMMON STOCKS		
(Cost $400,837,865)		**514,942,313**

PREFERRED STOCKS—0.4%	SHARES	VALUE
INTERNET SOFTWARE & SERVICES—0.2%		
Palantir Technologies, Inc., Cl. B*,@	168,373	1,023,708
Palantir Technologies, Inc., Cl. D*,@	21,936	133,371
		1,157,079
PHARMACEUTICALS—0.2%		
Intarcia Therapeutics, Inc., Series DD*,@	20,889	**1,199,237**
SYSTEMS SOFTWARE—0.0%		
Choicestream, Inc., Cl. A*,@,(a)	199,768	–
Choicestream, Inc., Cl. B*,@,(a)	445,303	–
		–
TOTAL PREFERRED STOCKS		
(Cost $2,360,207)		**2,356,316**

WARRANTS—0.0%	SHARES	VALUE
SYSTEMS SOFTWARE—0.0%		
Choicestream, Inc., 6/22/26@,(a)	87,152	**–**
(Cost $87,065)		**–**

MASTER LIMITED PARTNERSHIP—1.2%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—1.2%		
The Blackstone Group LP.	191,101	**6,373,218**
(Cost $5,751,132)		**6,373,218**

REAL ESTATE INVESTMENT TRUST—1.8%	SHARES	VALUE
SPECIALIZED—1.8%		
Crown Castle International Corp.	51,163	5,125,509
Equinix, Inc.	11,028	4,732,777
		9,858,286
TOTAL REAL ESTATE INVESTMENT TRUST		
(Cost $8,776,637)		**9,858,286**

CORPORATE BONDS—0.0%	PRINCIPAL AMOUNT	VALUE
SYSTEMS SOFTWARE—0.0%		
Choicestream, Inc., 11.00%, 8/05/18@,(a)	87,152	**–**
(Cost $87)		**–**
Total Investments		
(Cost $417,812,993)(b)	96.8%	**533,530,133**
Other Assets in Excess of Liabilities	3.2%	**17,612,130**
NET ASSETS	100.0%	**$ 551,142,263**

\# *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 Note 11.*

(b) *At June 30, 2017, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $429,798,467, amounted to $103,731,666 which consisted of aggregate gross unrealized appreciation of $118,334,460 and aggregate gross unrealized depreciation of $14,602,794.*

* *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 6/30/2017
Choicestream, Inc.	*03/14/14*	*$6,718*	*0.00%*	*$0*	*0.00%*
Choicestream, Inc., 11.00%, 8/05/18	*08/04/16*	*87*	*0.00%*	*0*	*0.00%*
Choicestream, Inc., 6/22/26	*08/04/16*	*87,065*	*0.02%*	*0*	*0.00%*
Choicestream, Inc., Cl. A	*12/17/13*	*159,751*	*0.03%*	*0*	*0.00%*
Choicestream, Inc., Cl. B	*07/10/14*	*267,182*	*0.05%*	*0*	*0.00%*
Intarcia Therapeutics, Inc., Series DD	*03/27/14*	*676,595*	*0.14%*	*1,199,237*	*0.22%*
Palantir Technologies, Inc., Cl. A	*10/07/14*	*268,648*	*0.05%*	*251,019*	*0.05%*
Palantir Technologies, Inc., Cl. B	*10/07/14*	*1,111,840*	*0.22%*	*1,023,708*	*0.19%*
Palantir Technologies, Inc., Cl. D	*10/14/14*	*144,839*	*0.03%*	*133,371*	*0.02%*
Total				$2,607,335	0.48%

See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Assets and Liabilities June 30, 2017 (Unaudited)

		Alger Capital Appreciation Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedule of investments	$	533,530,133
Investments in affiliated securities, at value (Identified cost below)** see accompanying schedule of investments		0
Cash and cash equivalents		10,965,231
Receivable for investment securities sold		7,405,955
Receivable for shares of beneficial interest sold		162,700
Dividends and interest receivable		253,108
Prepaid expenses		39,349
Total Assets		552,356,476
LIABILITIES:		
Payable for investment securities purchased		292,854
Payable for shares of beneficial interest redeemed		402,244
Accrued investment advisory fees		372,659
Accrued transfer agent fees		15,749
Accrued distribution fees		9,511
Accrued administrative fees		12,652
Accrued shareholder administrative fees		4,601
Accrued other expenses		103,943
Total Liabilities		1,214,213
NET ASSETS	**$**	**551,142,263**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		422,043,770
Undistributed net investment income		956,173
Undistributed net realized gain		12,425,180
Net unrealized appreciation on investments		115,717,140
NET ASSETS	**$**	**551,142,263**
* Identified cost	$	417,292,190
** Identified cost	$	520,803

See Notes to Financial Statements.

		Alger Capital Appreciation Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	505,508,457
Class S	$	45,633,806
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		6,463,085
Class S		607,835
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share Class I-2	$	78.21
Class S — Net Asset Value Per Share Class S	$	75.08

See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Operations for the six months ended June 30, 2017 (Unaudited)

		Alger Capital Appreciation Portfolio
INCOME:		
Dividends	$	3,019,708
Interest		1,340
Total Income		3,021,048
EXPENSES:		
Advisory fees — Note 3(a)		2,200,090
Distribution fees — Note 3(c)		
Class S		54,316
Shareholder administrative fees — Note 3(f)		27,162
Administration fees — Note 3(b)		74,694
Custodian fees		38,026
Interest expenses		5,663
Transfer agent fees and expenses — Note 3(f)		48,349
Printing fees		41,095
Professional fees		66,014
Registration fees		1,560
Trustee fees — Note 3(g)		11,640
Fund accounting fees		34,412
Miscellaneous		16,087
Total Expenses		2,619,108
NET INVESTMENT INCOME		401,940
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:		
Net realized gain on investments		24,215,606
Net change in unrealized appreciation on investments and foreign currency		57,870,999
Net realized and unrealized gain on investments and foreign currency		82,086,605
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**82,488,545**

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, 2017	For the Year Ended December 31, 2016
Net investment income	$ 401,940	$ 1,683,833
Net realized gain (loss) on investments and foreign currency	24,215,606	(1,059,292)
Net change in unrealized appreciation (depreciation) on investments and foreign currency	57,870,999	(454,271)
Net increase in net assets resulting from operations	82,488,545	170,270
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	—	(928,459)
Net realized gains:		
Class I-2	—	(3,848,649)
Class S	—	(321,992)
Total dividends and distributions to shareholders	—	(5,099,100)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	(48,273,509)	(76,834,423)
Class S	(413,596)	125,342
Net decrease from shares of beneficial interest transactions — Note 6	(48,687,105)	(76,709,081)
Total increase (decrease)	33,801,440	(81,637,911)
Net Assets:		
Beginning of period	517,340,823	598,978,734
END OF PERIOD	**$ 551,142,263**	**$ 517,340,823**
Undistributed net investment income	$ 956,173	$ 554,233

See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class I-2					
	Six months ended 6/30/2017(i)	Year ended 12/31/2016	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012
Net asset value, beginning of period	$ 67.11	$ 67.42	$ 71.35	$ 73.41	$ 60.81	$ 51.96
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income(ii)	0.06	0.22	0.13	0.12	0.24	0.69
Net realized and unrealized gain on investments	11.04	0.13	4.37	10.04	20.99	8.80
Total from investment operations	11.10	0.35	4.50	10.16	21.23	9.49
Dividends from net investment income	–	(0.13)	(0.06)	(0.08)	(0.27)	(0.62)
Distributions from net realized gains	–	(0.53)	(8.37)	(12.14)	(8.36)	(0.02)
Net asset value, end of period	$ 78.21	$ 67.11	$ 67.42	$ 71.35	$ 73.41	$ 60.81
Total return	16.54%	0.50%	6.19%	13.75%	35.19%	18.30%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 505,508	$ 477,771	$ 559,298	$ 499,123	$ 464,465	$ 348,152
Ratio of net expenses to average net assets	0.95%	0.94%	0.93%	0.94%	0.96%	0.96%
Ratio of net investment income (loss) to average net assets	0.17%	0.33%	0.18%	0.16%	0.34%	1.18%
Portfolio turnover rate	33.68%	89.78%	142.01%	143.20%	117.15%	139.19%

See Notes to Financial Statements.

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

Alger Capital Appreciation Portfolio

	Class S					
	Six months ended 6/30/2017[i]	Year ended 12/31/2016	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012
Net asset value, beginning of period	$ 64.50	$ 64.87	$ 69.08	$ 71.54	$ 59.46	$ 50.72
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income (loss)[ii]	(0.03)	0.04	(0.06)	(0.08)	0.03	0.48
Net realized and unrealized gain on investments	10.61	0.12	4.22	9.76	20.49	8.60
Total from investment operations	10.58	0.16	4.16	9.68	20.52	9.08
Dividends from net investment income	–	–	–	–	(0.08)	(0.32)
Distributions from net realized gains	–	(0.53)	(8.37)	(12.14)	(8.36)	(0.02)
Net asset value, end of period	$ 75.08	$ 64.50	$ 64.87	$ 69.08	$ 71.54	$ 59.46
Total return	16.40%	0.22%	5.91%	13.45%	34.79%	17.89%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 45,634	$ 39,570	$ 39,681	$ 27,987	$ 19,750	$ 13,692
Ratio of net expenses to average net assets	1.22%	1.21%	1.20%	1.21%	1.26%	1.30%
Ratio of net investment income (loss) to average net assets	(0.09)%	0.06%	(0.09)%	(0.11)%	0.04%	0.83%
Portfolio turnover rate	33.68%	89.78%	142.01%	143.20%	117.15%	139.19%

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 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 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.

The industry classifications of the Portfolio's investments, as presented in the accompanying Schedule of Investments, represent management's belief as to the most meaningful presentation of the classification of such investments. For Portfolio compliance purposes, the Portfolio's industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or rating group indexes, with the primary source being Global Industry Classification Standard (GICS).

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, time to exit 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 indexes. Because of the inherent uncertainty and often limited markets for restricted securities, the values may significantly differ from the values if there was an active market.

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 meets at least 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 2013-2016. 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. All such estimates 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, 2017, 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 to $3 billion, Tier 3 rate is paid on assets in between $3 to $4 billion, Tier 4 rate is paid on assets between $4 to $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, 2017, the Portfolio paid Alger Inc. $29,586, 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, 2017.

During the six months ended June 30, 2017, the Portfolio incurred interest expense of $5,663 in connection with interfund loans which is included in the interest expenses 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: 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 term "Alger Fund Complex" refers to the Portfolio, The Alger Funds, The Alger Institutional Funds, The Alger Funds II and Alger Global Growth Fund, each of which is a registered investment company managed by Fred Alger Management, Inc. 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 other funds advised by Alger Management. For the six months ended June 30, 2017, the Portfolio had no such purchases or sales.

(i) Other Transactions With Affiliates: Certain officers of the Fund are directors and officers of Alger Management, the Distributor, or their affiliates.

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, 2017, were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$179,650,896	$232,402,244

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 systems.

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, 2017, the Portfolio had the following borrowings from its custodian and other funds.

	AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
Alger Capital Appreciation Portfolio	$ 674,937	1.69%

	HIGHEST BORROWING
Alger Capital Appreciation Portfolio	$ 23,686,318

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, 2017 and the year ended December 31, 2016, transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2017		FOR THE YEAR ENDED DECEMBER 31, 2016	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Capital Appreciation Portfolio				
Class I-2:				
Shares sold	436,418	$ 32,359,492	1,155,883	$ 75,361,544
Dividends reinvested	—	—	67,178	4,576,134
Shares redeemed	(1,092,893)	(80,633,001)	(2,399,340)	(156,772,101)
Net decrease	**(656,475)**	**$ (48,273,509)**	**(1,176,279)**	**$ (76,834,423)**
Class S:				
Shares sold	37,921	$ 2,708,965	92,431	$ 5,817,385
Dividends reinvested	—	—	4,917	321,992
Shares redeemed	(43,601)	(3,122,561)	(95,484)	(6,014,035)
Net increase (decrease)	**(5,680)**	**$ (413,596)**	**1,864**	**$ 125,342**

NOTE 7 — Income Tax Information:

At December 31, 2016, the Portfolio, for federal income tax purposes, had no capital loss carryforwards and no capital loss carryforwards were utilized in 2016.

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, 2017, 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	$ 101,893,570	$ 101,893,570	—	—
Consumer Staples	19,748,965	19,748,965	—	—
Energy	10,430,993	10,430,993	—	—
Financials	23,882,256	23,882,256	—	—
Health Care	78,611,463	78,611,463	—	—
Industrials	30,725,265	30,725,265	—	—
Information Technology	238,075,121	237,824,102	—	251,019*
Materials	8,382,795	8,382,795	—	—
Telecommunication Services	3,191,885	3,191,885	—	—
TOTAL COMMON STOCKS	**$ 514,942,313**	**$ 514,691,294**	**—**	**$ 251,019**
CORPORATE BONDS				
Information Technology	—	—	—	—*
MASTER LIMITED PARTNERSHIP				
Financials	6,373,218	6,373,218	—	—
PREFERRED STOCKS				
Health Care	1,199,237	—	—	1,199,237
Information Technology	1,157,079	—	—	1,157,079*
TOTAL PREFERRED STOCKS	**$ 2,356,316**	**—**	**—**	**$ 2,356,316**
REAL ESTATE INVESTMENT TRUST				
Real Estate	9,858,286	9,858,286	—	—
WARRANTS				
Information Technology	—	—	—	—*
TOTAL INVESTMENTS IN SECURITIES	**$ 533,530,133**	**$ 530,922,798**	**—**	**$ 2,607,335**

* The Portfolio's shares of Choicestream Inc. common stock, Class A and Class B preferred stock, corporate bonds and warrants are classified as Level 3 investments and are fair valued at zero as of June 30, 2017.

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Alger Capital Appreciation Portfolio	**Common Stocks**
Opening balance at January 1, 2017	$ 251,019
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	—
Purchases and sales	
Purchases	—
Sales	—
Closing balance at June 30, 2017	251,019
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 6/30/2017	$ —

Alger Capital Appreciation Portfolio	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) Corporate Bonds
Opening balance at January 1, 2017	$ 87,152
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	(87,152)
Purchases and sales	
Purchases	—
Sales	—
Closing balance at June 30, 2017	—
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 6/30/2017	$ (87,152)

Alger Capital Appreciation Portfolio	Preferred Stocks
Opening balance at January 1, 2017	$ 2,606,720
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	(250,404)
Purchases and sales	
Purchases	—
Sales	—
Closing balance at June 30, 2017	2,356,316
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 6/30/2017	$ (250,404)

Alger Capital Appreciation Portfolio	Warrants
Opening balance at January 1, 2017	$ 85,409
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	(85,409)
Purchases and sales	
Purchases	—
Sales	—
Closing balance at June 30, 2017	—
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 6/30/2017	$ (85,409)

The following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30, 2017. 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, 2017	Valuation Methodology	Unobservable Input	Input/ Range	Weighted Average
Alger Capital Appreciation Portfolio					
Common Stocks	$ 251,019	Income Approach	Revenue Multiple	9x-17x	N/A
			Discount Rate	20-40%	20%
			Scenario Probability	10-50%	N/A
			Time to Exit	0.6-2.6 Years	N/A
Preferred Stocks	1,199,237	Market Approach	Scenario Probability	80 to 100%	N/A
			Time to Exit	2 Years	N/A
			Volatility	88.3%	N/A
Preferred Stocks	1,157,079	Income Approach	Revenue Multiple	9x-17x	N/A
			Discount Rate	20-40%	20%
			Scenario Probability	10-50%	N/A
			Time to Exit	0.6-2.6 Years	N/A
Warrants	0	Income Approach	Discount Rate	40%	N/A
Corporate Bonds	0	Income Approach	Discount Rate	40%	N/A

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. Generally, increases in revenue and EBITDA multiples, decreases in discount rates, and increases in the probabilities of success results in higher fair value measurements, whereas decreases in revenues and EBITDA multiples, increases in discount rates, and decreases in the probabilities of success results in lower fair value measurements.

On June 30, 2017 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, 2017, 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	$ 10,965,231	—	$10,965,231	—

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 indexes. 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 derivative instruments for the six months ended June 30, 2017.

NOTE 10 — Risks:

As of June 30, 2017, the Portfolio invested a significant portion of its assets in securities in the Information Technology sector. Changes in economic conditions affecting that sector 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.

The Portfolio invests in companies that are not yet available in the public markets and that are accessible only through private equity investments. The Portfolio may also invest in venture capital or private equity funds, direct private equity investments and other investments that may have limited liquidity. There may be no trading market for these securities, and their sale or transfer may be limited or prohibited by contract or legal requirements, or may be dependent on an exit strategy, such as an initial public offering or the sale of a business, which may not occur, or may be dependent on managerial assistance provided by other investors and their willingness to provide additional financial support. The securities may be able to be liquidated, if at all, at disadvantageous prices. As a result, the Portfolio may be required to hold these positions for several years, if not longer, regardless of adverse price movements. Such positions may cause the Portfolio to be less liquid than would otherwise be the case.

NOTE 11 — Affiliated Securities:

The issuers of the securities listed below are deemed to be affiliates of the Portfolio because the Portfolio or its affiliates owned 5% or more of the issuer's voting securities during all or part of the year ended June 30, 2017. Purchase and sale transactions during the period were as follows:

Security	Shares/Par at December 31, 2016	Purchases/	Sales/	Shares/Par at June 30, 2017	Interest Income	Realized Gain (Loss)	Value at June 30, 2017
Alger Capital Appreciation Portfolio							
Common Stocks							
Choicestream, Inc.*	23,166	–	–	23,166	–	–	$0
Preferred Stocks							
Choicestream, Inc. Class A & Class B*	645,071	–	–	645,071	–	–	0
Corporate Bonds							
Choicestream, Inc., 11.0%, 8/05/18*	87,152	–	–	87,152	–	–	0
Warrants							
Choicestream, Inc., 6/.22/26*	87,152	–	–	87,152	–	–	0

*Non-income producing security.

NOTE 12 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to June 30, 2017 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, 2017 and ending June 30, 2017.

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, 2017	Ending Account Value June 30, 2017	Expenses Paid During the Six Months Ended June 30, 2017[(a)]	Annualized Expense Ratio For the Six Months Ended June 30, 2017[(b)]
Alger Capital Appreciation Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,165.40	$ 5.05	0.95%
	Hypothetical[(c)]	1,000.00	1,020.13	4.71	0.95
Class S	Actual	1,000.00	1,164.03	6.44	1.22
	Hypothetical[(c)]	1,000.00	1,018.84	6.01	1.22

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

(b) Annualized.

(c) 5% annual return before expenses.

Privacy Policy

U.S. Consumer Privacy Notice **Rev. 12/20/16**

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 our affiliates' everyday business purposes — information about your creditworthiness	**No**	**We don't share**
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 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 Portfolios' policies and procedures regarding such disclosure. This agreement must be approved by the Portfolio's Chief Compliance Officer, President, Secretary or Assistant Secretary.

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

In addition to material the Portfolio routinely provides to shareholders, 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, maximum drawdown, 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

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

Inspired by Change, Driven by Growth.

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CapAppSAR

F109

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series I

Deutsche Bond VIP

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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.

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

Performance Summary

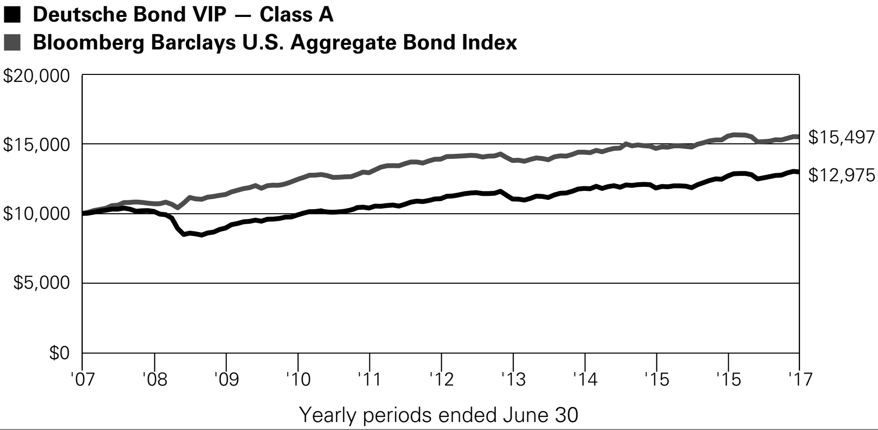
June 30, 2017 (Unaudited)

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, 2017 is 0.80% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment



The Bloomberg 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	$10,342	$10,231	$11,000	$11,733	$12,975
	Average annual total return	3.42%	2.31%	3.23%	3.25%	2.64%
Bloomberg Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,227	$9,969	$10,763	$11,157	$15,497
	Average annual total return	2.27%	–0.31%	2.48%	2.21%	4.48%

The growth of $10,000 is cumulative.

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

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Total Net Assets)	**6/30/17**	**12/31/16**
Corporate Bonds	61%	49%
Government & Agency Obligations	16%	23%
Mortgage-Backed Securities Pass-Throughs	16%	19%
Asset-Backed	6%	5%
Collateralized Mortgage Obligations	3%	3%
Commercial Mortgage-Backed Securities	2%	2%
Short-Term U.S. Treasury Obligations	1%	1%
Cash Equivalents, Securities Lending Collateral and other Assets and Liabilities, net	–5%	–2%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
AAA	31%	47%
AA	4%	5%
A	15%	10%
BBB	28%	22%
BB	18%	14%
B	3%	1%
Not Rated	1%	1%
	100%	100%

Interest Rate Sensitivity	**6/30/17**	**12/31/16**
Effective Maturity	9.6 years	8.7 years
Effective Duration	5.9 years	5.9 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, Managing Director
Thomas M. Farina, CFA, Managing Director
Gregory M. Staples, CFA, Managing Director
Portfolio Managers

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 61.0%		
Consumer Discretionary 11.3%		
AMC Networks, Inc., 5.0%, 4/1/2024	265,000	271,294
BMW U.S. Capital LLC, 144A, 3.3%, 4/6/2027	305,000	307,681
CalAtlantic Group, Inc., 5.0%, 6/15/2027	525,000	526,312
CCO Holdings LLC, 144A, 5.125%, 5/1/2027	414,000	423,315
Charter Communications Operating LLC:		
3.579%, 7/23/2020	90,000	93,004
4.908%, 7/23/2025	673,000	727,055
144A, 5.375%, 5/1/2047	35,000	37,028
CVS Health Corp., 5.125%, 7/20/2045	110,000	126,103
General Motors Co.:		
6.6%, 4/1/2036	55,000	63,724
6.75%, 4/1/2046	50,000	59,301
General Motors Financial Co., Inc., 3.15%, 6/30/2022	1,115,000	1,116,726
Hilton Domestic Operating Co., Inc., 144A, 4.25%, 9/1/2024	310,000	314,262
Hilton Worldwide Finance LLC, 144A, 4.875%, 4/1/2027	455,000	476,044
KFC Holding Co., 144A, 4.75%, 6/1/2027	290,000	296,163
Lennar Corp., 4.125%, 1/15/2022	505,000	522,044
Myriad International Holdings BV, 144A, 4.85%, 7/6/2027 (b)	500,000	501,250
NCL Corp., Ltd., 144A, 4.75%, 12/15/2021	295,000	306,207
Nordstrom, Inc.:		
4.0%, 3/15/2027	85,000	83,177
5.0%, 1/15/2044	135,000	128,624
PetSmart, Inc., 144A, 5.875%, 6/1/2025	135,000	130,106
PulteGroup, Inc., 5.0%, 1/15/2027	625,000	641,406
Sabre GLBL, Inc., 144A, 5.375%, 4/15/2023	300,000	312,750
Toll Brothers Finance Corp., 4.875%, 11/15/2025	300,000	311,250
VeriSign, Inc., 144A, 4.75%, 7/15/2027 (b)	405,000	409,556
Viacom, Inc.:		
5.875%, 2/28/2057	80,000	83,200
6.25%, 2/28/2057	85,000	88,400
Walgreens Boots Alliance, Inc., 4.8%, 11/18/2044	90,000	95,774
		8,451,756
Consumer Staples 1.4%		
Anheuser-Busch InBev Finance, Inc., 4.9%, 2/1/2046	235,000	265,231
Kraft Heinz Foods Co., 4.375%, 6/1/2046	175,000	171,383
Molson Coors Brewing Co., 4.2%, 7/15/2046	120,000	118,341
PepsiCo, Inc., 4.45%, 4/14/2046	50,000	54,504
Reckitt Benckiser Treasury Services PLC:		
144A, 2.75%, 6/26/2024	200,000	198,303
144A, 3.0%, 6/26/2027	220,000	217,090
		1,024,852
Energy 8.0%		
Canadian Natural Resources Ltd.:		
3.85%, 6/1/2027	105,000	104,149
4.95%, 6/1/2047	80,000	81,192
Cenovus Energy, Inc., 144A, 5.4%, 6/15/2047	205,000	191,345
Concho Resources, Inc., 5.5%, 4/1/2023	150,000	154,125
Continental Resources, Inc., 5.0%, 9/15/2022	150,000	147,187
Enbridge, Inc.:		
2.9%, 7/15/2022 (b)	110,000	109,780
3.7%, 7/15/2027 (b)	95,000	94,930
5.5%, 12/1/2046	60,000	67,111
Energy Transfer Partners LP, 5.95%, 10/1/2043	90,000	95,344
EnLink Midstream Partners LP, 5.45%, 6/1/2047	120,000	119,651
Halliburton Co., 4.85%, 11/15/2035	195,000	208,477
Hess Corp.:		
5.6%, 2/15/2041	180,000	176,952
5.8%, 4/1/2047	90,000	90,749
Kinder Morgan Energy Partners LP, 4.7%, 11/1/2042	160,000	151,053
Marathon Oil Corp., 5.2%, 6/1/2045	100,000	95,877
Newfield Exploration Co., 5.75%, 1/30/2022	150,000	157,875
Noble Holding International Ltd.:		
5.75%, 3/16/2018	30,000	30,182
7.75%, 1/15/2024 (c)	650,000	514,312
Petrobras Global Finance BV:		
6.125%, 1/17/2022	131,000	135,126
8.375%, 5/23/2021	575,000	643,643
Petroleos del Peru SA, 144A, 5.625%, 6/19/2047	300,000	303,000
Petroleos Mexicanos:		
4.625%, 9/21/2023	135,000	136,620
144A, 5.375%, 3/13/2022	157,000	165,282
Plains All American Pipeline LP:		
2.85%, 1/31/2023	165,000	160,068
4.3%, 1/31/2043	95,000	81,286
4.5%, 12/15/2026	165,000	166,873
Regency Energy Partners LP, 4.5%, 11/1/2023	130,000	134,891
Rosneft Finance SA, 144A, 7.25%, 2/2/2020	400,000	439,487
Sabine Pass Liquefaction LLC, 5.0%, 3/15/2027	505,000	537,558
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	90,000	87,740
Transcanada Trust, 5.3%, 3/15/2077	380,000	390,640
		5,972,505
Financials 14.9%		
AIA Group Ltd., 144A, 4.5%, 3/16/2046	200,000	212,546
ANZ New Zealand International Ltd., 144A, 2.125%, 7/28/2021	200,000	196,699
Ares Capital Corp.:		
3.625%, 1/19/2022	180,000	182,083
3.875%, 1/15/2020	200,000	203,923

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

	Principal Amount ($)(a)	Value ($)
Bank of America Corp., 3.824%, 1/20/2028	360,000	366,251
Banque Federative du Credit Mutuel SA, 144A, 2.5%, 4/13/2021	205,000	204,737
Barclays PLC, 4.836%, 5/9/2028	690,000	705,380
BBVA Bancomer SA, 144A, 6.75%, 9/30/2022	250,000	284,063
Blackstone Holdings Finance Co., LLC, 144A, 5.0%, 6/15/2044	50,000	54,396
BNP Paribas SA, 144A, 4.625%, 3/13/2027	420,000	442,895
Branch Banking & Trust Co., 1.45%, 5/10/2019	180,000	178,602
Citigroup, Inc., 3.2%, 10/21/2026	380,000	369,558
Credit Agricole SA, 144A, 2.375%, 7/1/2021 (c)	250,000	249,031
Credit Suisse Group AG, 144A, 4.282%, 1/9/2028	250,000	258,420
Credit Suisse Group Funding Guernsey Ltd., 3.8%, 6/9/2023	250,000	257,739
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	100,000	102,936
FS Investment Corp., 4.75%, 5/15/2022	150,000	154,020
HSBC Holdings PLC:		
4.375%, 11/23/2026	200,000	207,524
6.0%, 5/22/2027	225,000	232,650
JPMorgan Chase & Co., 2.95%, 10/1/2026	380,000	366,738
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	70,000	74,058
Legg Mason, Inc., 5.625%, 1/15/2044	100,000	106,213
Loews Corp., 4.125%, 5/15/2043	80,000	79,411
Macquarie Bank Ltd., 144A, 6.125%, 3/8/2027	295,000	301,638
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	390,000	423,672
Manulife Financial Corp.:		
4.061%, 2/24/2032	280,000	282,496
4.9%, 9/17/2020	80,000	86,012
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	30,000	30,344
Morgan Stanley, 3.625%, 1/20/2027	280,000	282,013
Nationwide Building Society, 144A, 2.45%, 7/27/2021	200,000	199,867
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	90,000	102,347
QBE Insurance Group Ltd., 144A, 2.4%, 5/1/2018	260,000	260,152
Royal Bank of Scotland Group PLC, 3.498%, 5/15/2023	400,000	402,594
Santander Holdings U.S.A., Inc., 144A, 3.7%, 3/28/2022	290,000	293,748
Santander UK Group Holdings PLC, 2.875%, 8/5/2021	335,000	335,770
Societe Generale SA, 144A, 7.375%, 12/29/2049	476,000	511,700
Standard Chartered PLC, 144A, 3.05%, 1/15/2021	200,000	202,464
Suncorp-Metway Ltd.:		
144A, 2.1%, 5/3/2019	95,000	94,759
144A, 2.8%, 5/4/2022	205,000	205,418
Swiss Re Treasury U.S. Corp., 144A, 4.25%, 12/6/2042	70,000	71,975
The Goldman Sachs Group, Inc., 3.75%, 2/25/2026	370,000	376,753
Unifin Financiera SAB de CV SOFOM ENR, 144A, 7.0%, 1/15/2025	415,000	409,813
Voya Financial, Inc., 4.8%, 6/15/2046	120,000	124,992
Wells Fargo & Co., 3.0%, 10/23/2026	380,000	370,028
Woori Bank, 144A, 4.5%, 12/29/2049	250,000	247,833
		11,106,261
Health Care 2.0%		
Aetna, Inc., 2.8%, 6/15/2023	85,000	84,853
Anthem, Inc., 3.3%, 1/15/2023	60,000	61,194
Bristol-Myers Squibb Co., 3.25%, 2/27/2027	320,000	322,762
HCA, Inc., 5.25%, 6/15/2026	300,000	323,550
Mylan NV, 5.25%, 6/15/2046	45,000	49,225
Shire Acquisitions Investments Ireland DAC, 3.2%, 9/23/2026	263,000	257,176
Stryker Corp.:		
3.375%, 11/1/2025	80,000	81,415
4.625%, 3/15/2046	40,000	43,699
Teva Pharmaceutical Finance Netherlands III BV, 2.2%, 7/21/2021	150,000	147,249
UnitedHealth Group, Inc.:		
3.45%, 1/15/2027	50,000	51,410
4.2%, 1/15/2047	80,000	84,392
		1,506,925
Industrials 4.2%		
Acwa Power Management & Investments One Ltd., 144A, 5.95%, 12/15/2039	450,000	459,056
Bombardier, Inc., 144A, 8.75%, 12/1/2021	495,000	549,450
Booz Allen Hamilton, Inc., 144A, 5.125%, 5/1/2025	20,000	19,650
FedEx Corp., 4.55%, 4/1/2046	90,000	94,539
KAR Auction Services, Inc., 144A, 5.125%, 6/1/2025	280,000	285,250
Northrop Grumman Corp., 3.2%, 2/1/2027	170,000	171,168
Rockwell Collins, Inc., 4.35%, 4/15/2047	170,000	177,789
Siemens Financieringsmaatschappij NV:		
144A, 3.4%, 3/16/2027	250,000	255,486
144A, 4.2%, 3/16/2047	250,000	264,811
Transurban Finance Co. Pty Ltd., 144A, 3.375%, 3/22/2027	130,000	126,965
United Rentals North America, Inc.:		
5.5%, 5/15/2027	330,000	339,900
5.875%, 9/15/2026	365,000	388,725
		3,132,789
Information Technology 4.6%		
Apple, Inc., 3.45%, 2/9/2045	60,000	56,379
Broadcom Corp., 144A, 3.625%, 1/15/2024	125,000	127,875
CA, Inc., 3.6%, 8/15/2022	90,000	91,010
Dell International LLC:		
144A, 4.42%, 6/15/2021	120,000	126,506
144A, 5.875%, 6/15/2021	1,220,000	1,277,950
144A, 8.1%, 7/15/2036	90,000	113,121

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

	Principal Amount ($)(a)	Value ($)
DXC Technology Co., 144A, 4.75%, 4/15/2027	400,000	417,074
eBay, Inc., 3.8%, 3/9/2022	81,000	84,645
Fidelity National Information Services, Inc., 3.625%, 10/15/2020	140,000	146,656
Hewlett Packard Enterprise Co., 3.6%, 10/15/2020	90,000	92,799
j2 Cloud Services LLC, 144A, 6.0%, 7/15/2025	170,000	175,100
Seagate HDD Cayman:		
144A, 4.25%, 3/1/2022	90,000	91,483
5.75%, 12/1/2034	110,000	110,045
Symantec Corp., 144A, 5.0%, 4/15/2025	115,000	120,354
Tencent Holdings Ltd., 144A, 3.8%, 2/11/2025	250,000	260,358
Xilinx, Inc., 2.95%, 6/1/2024	130,000	130,350
		3,421,705

Materials 5.3%

	Principal Amount ($)(a)	Value ($)
Anglo American Capital PLC, 144A, 4.75%, 4/10/2027	400,000	410,920
AngloGold Ashanti Holdings PLC, 5.125%, 8/1/2022 (c)	250,000	261,125
Bluestar Finance Holdings Ltd., REG S, 4.375%, 6/11/2020	300,000	310,358
Cemex SAB de CV, 144A, 7.75%, 4/16/2026	200,000	228,750
CF Industries, Inc., 3.45%, 6/1/2023 (c)	450,000	425,250
Freeport-McMoRan, Inc., 2.375%, 3/15/2018	150,000	149,250
Glencore Funding LLC, 144A, 4.625%, 4/29/2024	40,000	41,816
LYB International Finance II BV, 3.5%, 3/2/2027	325,000	320,366
Mexichem SAB de CV, 144A, 5.875%, 9/17/2044	300,000	300,450
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020	325,000	332,585
Rio Tinto Finance U.S.A. Ltd., 3.75%, 6/15/2025	90,000	94,729
St. Marys Cement, Inc., 144A, 5.75%, 1/28/2027	430,000	423,034
Vale Overseas Ltd., 6.25%, 8/10/2026	242,000	261,058
Yamana Gold, Inc., 4.95%, 7/15/2024	405,000	409,194
		3,968,885

Real Estate 3.8%

	Principal Amount ($)(a)	Value ($)
CBL & Associates LP:		
(REIT), 5.25%, 12/1/2023 (c)	145,000	141,443
(REIT), 5.95%, 12/15/2026 (c)	125,000	123,778
Crown Castle International Corp., (REIT), 5.25%, 1/15/2023	135,000	149,963
CyrusOne LP:		
144A, (REIT), 5.0%, 3/15/2024	110,000	113,300
144A, (REIT), 5.375%, 3/15/2027	75,000	78,094
Equinix, Inc., (REIT), 5.375%, 4/1/2023	345,000	358,369
Government Properties Income Trust, (REIT), 3.75%, 8/15/2019	110,000	110,857
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	220,000	235,820
Host Hotels & Resorts LP, (REIT), 3.875%, 4/1/2024	135,000	137,323
Howard Hughes Corp., 144A, 5.375%, 3/15/2025	280,000	286,300
MGM Growth Properties Operating Partnership LP, (REIT), 4.5%, 9/1/2026	280,000	281,750
Omega Healthcare Investors, Inc.:		
(REIT), 4.75%, 1/15/2028	145,000	144,754
(REIT), 4.95%, 4/1/2024	130,000	136,159
Select Income REIT:		
(REIT), 4.15%, 2/1/2022	120,000	120,974
(REIT), 4.25%, 5/15/2024	80,000	79,285
VEREIT Operating Partnership LP, (REIT), 4.125%, 6/1/2021	285,000	297,272
		2,795,441

Telecommunication Services 3.1%

	Principal Amount ($)(a)	Value ($)
AT&T, Inc.:		
3.4%, 5/15/2025	200,000	196,618
4.25%, 3/1/2027	218,000	225,402
4.5%, 5/15/2035	260,000	255,786
Bharti Airtel International Netherlands BV, 144A, 5.125%, 3/11/2023	300,000	315,747
Deutsche Telekom International Finance BV, 144A, 2.82%, 1/19/2022	250,000	251,432
Sprint Spectrum Co., LLC, 144A, 3.36%, 3/20/2023	200,000	201,750
Telefonica Emisiones SAU, 5.213%, 3/8/2047	300,000	323,920
Verizon Communications, Inc.:		
2.625%, 8/15/2026	450,000	413,908
4.272%, 1/15/2036	150,000	144,773
		2,329,336

Utilities 2.4%

	Principal Amount ($)(a)	Value ($)
AmeriGas Partners LP, 5.5%, 5/20/2025	208,000	212,160
EDP Finance BV, 144A, 3.625%, 7/15/2024	200,000	198,488
Electricite de France SA, 144A, 4.75%, 10/13/2035	150,000	160,218
Enel Finance International NV, 144A, 4.75%, 5/25/2047	200,000	205,792
Great Plains Energy, Inc., 4.85%, 4/1/2047	85,000	87,464
Israel Electric Corp., Ltd., Series 6, 144A, REG S, 5.0%, 11/12/2024	300,000	322,350
NRG Energy, Inc., 6.625%, 1/15/2027	270,000	270,337
Southern Co., 3.25%, 7/1/2026	205,000	200,544
Southern Power Co., Series F, 4.95%, 12/15/2046	87,000	89,840
		1,747,193
Total Corporate Bonds (Cost $44,646,410)		**45,457,648**

Mortgage-Backed Securities Pass-Throughs 16.1%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
4.0%, 8/1/2039	431,080	457,675
5.5%, with various maturities from 10/1/2023 until 6/1/2035	807,824	905,132
6.5%, 3/1/2026	111,419	121,906

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

	Principal Amount ($)(a)	Value ($)
Federal National Mortgage Association:		
3.0%*, 9/1/2038	28,189	29,572
3.5%, with various maturities from 12/1/2046 until 1/1/2047	2,497,134	2,577,262
5.0%, with various maturities from 10/1/2033 until 8/1/2040	809,583	886,106
5.5%, with various maturities from 12/1/2032 until 8/1/2037	848,157	947,274
6.0%, with various maturities from 4/1/2024 until 3/1/2025	236,561	265,971
6.5%, with various maturities from 11/1/2024 until 12/1/2037	272,086	309,317
Government National Mortgage Association:		
3.5%, 7/1/2047 (b)	1,100,000	1,139,359
4.0%, with various maturities from 2/15/2041 until 7/1/2047 (b)	4,143,286	4,367,133
Total Mortgage-Backed Securities Pass-Throughs (Cost $11,839,966)		**12,006,707**

Asset-Backed 5.6%

Automobile Receivables 0.7%

	Principal Amount ($)(a)	Value ($)
Avis Budget Rental Car Funding AESOP LLC, "C", Series 2015-1A, 144A, 3.96%, 7/20/2021	500,000	**497,299**

Credit Card Receivables 1.3%

	Principal Amount ($)(a)	Value ($)
World Financial Network Credit Card Master Trust, "M", Series 2016-A, 2.33%, 4/15/2025	1,000,000	**991,071**

Miscellaneous 3.6%

	Principal Amount ($)(a)	Value ($)
Domino's Pizza Master Issuer LLC, "A23", Series 2017-1A, 144A, 4.118%, 7/25/2047 (b)	1,140,000	1,139,287
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	154,358	152,555
PennyMac LLC, "A1", Series 2015-NPL1, 144A, 4.0%, 3/25/2055	174,530	175,337
Taco Bell Funding LLC, "A2I", Series 2016-1A, 144A, 3.832%, 5/25/2046	739,413	755,909
Voya CLO Ltd., "C", Series 2015-1A, 144A, 4.424%*, 4/18/2027	500,000	494,613
		2,717,701
Total Asset-Backed (Cost $4,190,043)		**4,206,071**

Commercial Mortgage-Backed Securities 1.6%

	Principal Amount ($)(a)	Value ($)
FHLMC Multifamily Structured Pass-Through Certificates:		
"X1", Series K043, Interest Only, 0.675%**, 12/25/2024	4,966,172	172,932
"X1", Series K054, Interest Only, 1.318%**, 1/25/2026	1,843,639	152,952
JPMBB Commercial Mortgage Securities Trust, "A3", Series 2014-C19, 3.669%, 4/15/2047	150,000	155,895
JPMorgan Chase Commercial Mortgage Securities Corp., "A4", Series 2007-C1, 5.716%, 2/15/2051	674,885	678,653
Total Commercial Mortgage-Backed Securities (Cost $1,204,860)		**1,160,432**

Collateralized Mortgage Obligations 3.0%

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans, "A2", Series 2006-1, 6.0%, 3/25/2036	223,852	190,800
CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035	90,916	51,714
Federal Home Loan Mortgage Corp.:		
"PI", Series 4485, Interest Only, 3.5%, 6/15/2045	1,969,928	317,073
"PI", Series 3940, Interest Only, 4.0%, 2/15/2041	320,701	45,948
"C31", Series 303, Interest Only, 4.5%, 12/15/2042	1,483,651	292,150
Federal National Mortgage Association, "ZL" , Series 2017-55, 3.0%, 10/25/2046	500,000	459,222
Government National Mortgage Association:		
"PL", Series 2013-19, 2.5%, 2/20/2043	684,500	647,813
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	365,801	48,139
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	273,199	46,009
"EI", Series 2011-162, Interest Only, 4.5%, 5/20/2040	431,568	20,479
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040	436,812	5,957
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	79,133	14,354
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	153,133	25,823
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	66,653	11,477
MASTR Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	35,324	36,071
"8A1", Series 2004-3, 7.0%, 4/25/2034	6,855	7,344
Total Collateralized Mortgage Obligations (Cost $2,527,491)		**2,220,373**

Government & Agency Obligations 16.2%

Other Government Related (d) 4.3%

		Principal Amount ($)(a)	Value ($)
Credit Bank of Moscow, 144A, 8.875%, 11/10/2022		1,250,000	1,199,520
European Financial Stability Facility, REG S, 1.25%, 5/24/2033	EUR	1,316,000	1,474,171
Novatek OAO, 144A, 6.604%, 2/3/2021		300,000	332,187
Vnesheconombank, 144A, 6.902%, 7/9/2020		150,000	162,988
			3,168,866

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

		Principal Amount ($)(a)	Value ($)
Sovereign Bonds 5.4%			
Government of Australia, Series 150, REG S, 3.0%, 3/21/2047	AUD	1,105,000	772,703
Government of New Zealand, Series 0427, REG S, 4.5%, 4/15/2027	NZD	900,000	743,115
KazAgro National Management Holding JSC, 144A, 4.625%, 5/24/2023		250,000	248,850
Kingdom of Norway, Series 479, 144A, REG S, 1.75%, 2/17/2027	NOK	12,785,000	1,545,854
Province of British Columbia Canada, 2.25%, 6/2/2026		500,000	484,206
Republic of Sri Lanka, 144A, 6.2%, 5/11/2027		200,000	199,682
			3,994,410
U.S. Government Sponsored Agency 0.9%			
Federal Home Loan Mortgage Corp., 6.25%, 7/15/2032		500,000	**710,771**
U.S. Treasury Obligations 5.6%			
U.S. Treasury Bond, 3.0%, 2/15/2047		170,000	175,366
U.S. Treasury Note, 0.75%, 10/31/2017 (e)		4,000,000	3,995,440
			4,170,806
Total Government & Agency Obligations (Cost $12,096,473)			**12,044,853**

	Principal Amount ($)(a)	Value ($)
Short-Term U.S. Treasury Obligation 1.1%		
U.S. Treasury Bill, 0.59%***, 8/10/2017 (f) (Cost $803,417)	804,000	**803,260**

	Shares	Value ($)
Securities Lending Collateral 2.3%		
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (g) (h) (Cost $1,732,418)	1,732,418	**1,732,418**
Cash Equivalents 0.0%		
Deutsche Central Cash Management Government Fund, 1.03% (g) (Cost $4,856)	4,856	**4,856**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $79,045,934)†	106.9	**79,636,618**
Other Assets and Liabilities, Net	(6.9)	**(5,111,134)**
Net Assets	100.0	**74,525,484**

* 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, 2017.

** These securities are shown at their current rate as of June 30, 2017.

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

† The cost for federal income tax purposes was $79,128,239. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $508,379. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,394,173 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $885,794.

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

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

(c) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2017 amounted to $1,661,674, which is 2.2% of net assets.

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

(e) At June 30, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

(f) At June 30, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures 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.

JSC: Joint Stock Company

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.

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

At June 30, 2017, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized (Depreciation) ($)
10 Year U.S. Treasury Note	USD	9/20/2017	23	2,887,219	(7,955)
5 Year U.S. Treasury Note	USD	9/29/2017	46	5,420,453	(12,578)
U.S. Treasury Long Bond	USD	9/20/2017	10	1,536,875	(3,645)
Total unrealized depreciation					**(24,178)**

At June 30, 2017, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
Euro-BTP Italian Government Bond	EUR	9/7/2017	11	1,697,851	24,511
Euro-OAT French Government Bond	EUR	9/7/2017	16	2,713,382	3,439
Federal Republic of Germany Euro-Bund	EUR	9/7/2017	8	1,479,038	24,110
Ultra 10 Year U.S. Treasury Note	USD	9/20/2017	42	5,662,125	9,759
Ultra Long U.S. Treasury Bond	USD	9/20/2017	58	9,620,750	(139,454)
United Kingdom Long Gilt Bond	GBP	9/27/2017	14	2,289,680	45,194
Total net unrealized depreciation					**(32,441)**

At June 30, 2017, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount	Currency	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
12/16/2015 9/16/2025	500,000	USD	Floating — 3-Month LIBOR	Fixed — 2.64%	20,649	17,971
12/16/2015 9/17/2035	6,700,000	USD	Floating — 3-Month LIBOR	Fixed — 2.938%	495,907	360,727
6/15/2017 6/15/2022	328,000,000	JPY	Floating — 6-Month JPY LIBOR	Fixed — 0.105%	710	710
6/15/2017 6/15/2047	59,800,000	JPY	Fixed — 0.811%	Floating — 6-Month JPY LIBOR	3,892	3,892
12/16/2015 9/18/2045	3,600,000	USD	Floating — 3-Month LIBOR	Fixed — 2.998%	361,609	246,511
9/30/2015 9/30/2045	2,000,000	USD	Fixed — 2.88%	Floating — 3-Month LIBOR	(157,704)	(118,302)
12/4/2015 12/4/2045	2,000,000	USD	Fixed — 2.615%	Floating — 3-Month LIBOR	(39,438)	1,685
9/16/2015 9/16/2045	4,695,000	USD	Floating — 3-Month LIBOR	Fixed — 3.0%	473,293	193,909
Total net unrealized appreciation						**707,103**

LIBOR: London Interbank Offered Rate; U.S. 3-Month LIBOR rate at June 30, 2017 is 1.3%; JPY 6-Month LIBOR rate at June 30, 2017 is 0.02%

At June 30, 2017, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	965,176	NZD	1,323,711	8/1/2017	4,266	Australia & New Zealand Banking Group Ltd.
NOK	16,287,831	SEK	16,767,508	8/14/2017	42,680	Danske Bank AS
USD	1,506,750	JPY	170,960,712	8/14/2017	16,196	Barclays Bank PLC
JPY	170,960,712	USD	1,550,777	8/14/2017	27,830	Citigroup, Inc.
USD	822,524	AUD	1,100,000	8/25/2017	22,333	JPMorgan Chase Securities, Inc.
NZD	2,100,000	CAD	2,010,908	9/14/2017	15,793	Citigroup, Inc.
USD	1,515,257	CAD	2,000,000	9/25/2017	29,096	Canadian Imperial Bank of Commerce
Total unrealized appreciation					**158,194**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
NZD	1,323,711	USD	904,816	8/1/2017	(64,626)	Australia & New Zealand Banking Group Ltd.
AUD	2,044,706	NZD	2,144,899	8/14/2017	(147)	Australia & New Zealand Banking Group Ltd.

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
NZD	2,173,001	AUD	2,044,706	8/14/2017	(20,429)	Bank of America
SEK	16,787,053	NOK	16,287,831	8/14/2017	(45,006)	Danske Bank AS
NZD	1,100,000	USD	753,449	8/16/2017	(51,934)	JPMorgan Chase Securities, Inc.
AUD	1,100,000	USD	823,565	8/25/2017	(21,292)	Australia & New Zealand Banking Group Ltd.
NOK	12,853,000	USD	1,540,175	8/28/2017	(1,155)	Toronto Dominion Bank
CAD	2,013,272	NZD	2,100,000	9/14/2017	(17,618)	BNP Paribas
CAD	2,000,000	USD	1,538,837	9/25/2017	(5,517)	Canadian Imperial Bank of Commerce
EUR	1,347,936	NOK	12,800,000	9/26/2017	(10,909)	Danske Bank AS
NOK	12,800,000	EUR	1,327,618	9/26/2017	(12,405)	Goldman Sachs & Co.
AUD	1,048,000	USD	799,194	9/29/2017	(5,376)	Australia & New Zealand Banking Group Ltd.
EUR	1,298,000	USD	1,489,760	10/5/2017	(393)	Citigroup, Inc.
Total unrealized depreciation					**(256,807)**	

Currency Abbreviations

AUD	Australian Dollar	NOK	Norwegian Krone
CAD	Canadian Dollar	NZD	New Zealand Dollar
EUR	Euro	SEK	Swedish Krona
GBP	British Pound	USD	United States Dollar
JPY	Japanese yen		

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

Fair Value Measurements

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

The following is a summary of the inputs used as of June 30, 2017 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	$ —	$ 45,457,648	$ —	$ 45,457,648
Mortgage-Backed Securities Pass-Throughs	—	12,006,707	—	12,006,707
Asset-Backed	—	4,206,071	—	4,206,071
Commercial Mortgage-Backed Securities	—	1,160,432	—	1,160,432
Collateralized Mortgage Obligations	—	2,220,373	—	2,220,373
Government & Agency Obligations	—	12,044,853	—	12,044,853
Short-Term U.S. Treasury Obligations	—	803,260	—	803,260
Short-Term Investments (i)	1,737,274	—	—	1,737,274
Derivatives (j)				
Futures Contracts	107,013	—	—	107,013
Interest Rate Swap Contracts	—	825,405	—	825,405
Forward Foreign Currency Exchange Contracts	—	158,194	—	158,194
Total	**$ 1,844,287**	**$ 78,882,943**	**$ —**	**$ 80,727,230**

Liabilities	Level 1	Level 2	Level 3	Level 2
Derivatives (j)				
Futures Contracts	$ (163,632)	$ —	$ —	$ (163,632)
Interest Rate Swap Contracts	—	(118,302)	—	(118,302)
Forward Foreign Currency Exchange Contracts	—	(256,807)	—	(256,807)
Total	**$ (163,632)**	**$ (375,109)**	**$ —**	**$ (538,741)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2017.

(i) See Investment Portfolio for additional detailed categorizations.

(j) Derivatives include unrealized appreciation (depreciation) on open futures 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, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $77,308,660) — including $1,661,674 of securities loaned	$	77,899,344
Investment in Government & Agency Securities Portfolio (cost $1,732,418)*		1,732,418
Investment in Deutsche Central Cash Management Government Fund (cost $4,856)		4,856
Total investments in securities, at value (cost $79,045,934)		79,636,618
Cash		618,617
Foreign currency, at value (cost $38,750)		38,065
Receivable for investments sold		1,351,905
Receivable for Fund shares sold		542,435
Interest receivable		675,764
Receivable for variation margin on futures contracts		96,600
Net receivable for pending swap contracts		14,335
Unrealized appreciation on forward foreign currency exchange contracts		158,194
Foreign taxes recoverable		1,572
Other assets		242
Total assets		83,134,347
Liabilities		
Payable upon return of securities loaned		1,732,418
Payable for investments purchased		1,771,587
Payable for investments purchased — when-issued/delayed delivery securities		4,558,264
Line of credit loan payable		100,000
Payable for Fund shares redeemed		13,660
Payable for variation margin on centrally cleared swaps		47,508
Unrealized depreciation on forward foreign currency exchange contracts		256,807
Accrued management fee		18,902
Accrued Trustees' fees		630
Other accrued expenses and payables		109,087
Total liabilities		8,608,863
Net assets, at value	**$**	**74,525,484**
Net Assets Consist of		
Undistributed net investment income		1,011,741
Net unrealized appreciation (depreciation) on:		
Investments		590,684
Swap contracts		707,103
Futures		(56,619)
Foreign currency		(98,722)
Accumulated net realized gain (loss)		(17,128,991)
Paid-in capital		89,500,288
Net assets, at value	**$**	**74,525,484**
Class A		
Net Asset Value, offering and redemption price per share ($74,525,484 ÷ 13,374,399 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.57**

* 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, 2017 (Unaudited)

Investment Income		
Income:		
Interest	$	1,360,400
Income distributions — Deutsche Central Cash Management Government Fund		1,342
Securities lending income, net of borrower rebates		4,145
Total income		1,365,887
Expenses:		
Management fee		145,645
Administration fee		37,345
Services to shareholders		824
Custodian fee		12,056
Professional fees		46,692
Reports to shareholders		17,216
Trustees' fees and expenses		3,715
Interest expense		129
Other		18,299
Total expenses before expense reductions		281,921
Expense reductions		(40,038)
Total expenses after expense reductions		241,883
Net investment income		**1,124,004**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		478,932
Swap contracts		(115,996)
Futures		(301,836)
Foreign currency		63,201
		124,301
Change in net unrealized appreciation (depreciation) on:		
Investments		1,013,241
Swap contracts		457,285
Futures		(125,443)
Foreign currency		(33,341)
		1,311,742
Net gain (loss)		**1,436,043**
Net increase (decrease) in net assets resulting from operations	**$**	**2,560,047**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income	$ 1,124,004	$ 2,156,650
Net realized gain (loss)	124,301	1,349,873
Change in net unrealized appreciation (depreciation)	1,311,742	1,028,989
Net increase (decrease) in net assets resulting from operations	2,560,047	4,535,512
Distributions to shareholders from:		
Net investment income:		
Class A	(1,811,823)	(4,037,321)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,562,111	10,928,699
Reinvestment of distributions	1,811,823	4,037,321
Payments for shares redeemed	(7,567,452)	(18,293,243)
Net increase (decrease) in net assets from Class A share transactions	(3,193,518)	(3,327,223)
Increase (decrease) in net assets	(2,445,294)	(2,829,032)
Net assets at beginning of period	76,970,778	79,799,810
Net assets at end of period (including undistributed net investment income of $1,011,741 and $1,699,560, respectively)	**$ 74,525,484**	**$ 76,970,778**

Other Information		
Class A		
Shares outstanding at beginning of period	13,944,103	14,528,974
Shares sold	459,460	1,951,337
Shares issued to shareholders in reinvestment of distributions	328,229	739,436
Shares redeemed	(1,357,393)	(3,275,644)
Net increase (decrease) in Class A shares	(569,704)	(584,871)
Shares outstanding at end of period	**13,374,399**	**13,944,103**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$ 5.52**	**$ 5.49**	**$ 5.67**	**$ 5.51**	**$ 5.89**	**$ 5.72**
Income (loss) from investment operations:						
Net investment income[a]	.08	.15	.14	.17	.16	.16
Net realized and unrealized gain (loss)	.11	.17	(.15)	.19	(.33)	.27
Total from investment operations	.19	.32	(.01)	.36	(.17)	.43
Less distributions from:						
Net investment income	(.14)	(.29)	(.17)	(.20)	(.21)	(.26)
Net asset value, end of period	**$ 5.57**	**$ 5.52**	**$ 5.49**	**$ 5.67**	**$ 5.51**	**$ 5.89**
Total Return (%)	3.42[b]**	5.93[b]	(.29)[b]	6.63[b]	(3.03)[b]	7.77
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	75	77	80	101	105	190
Ratio of expenses before expense reductions (%)[c]	.75*	.78	.69	.69	.65	.58
Ratio of expenses after expense reductions (%)[c]	.65*	.64	.64	.61	.56	.58
Ratio of net investment income (%)	3.01*	2.68	2.54	2.99	2.88	2.81
Portfolio turnover rate (%)	106**	236	197	273	418	115

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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.

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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, 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. As of period end, the remaining contractual maturity of the collateral agreements was overnight and continuous.

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, 2016, 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 until December 31, 2017, the expiration date and approximately $3,046,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($190,000) and long-term losses ($2,856,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, 2017, 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, 2017, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in futures contracts purchased had a total notional value generally indicative of a range from $1,367,000 to approximately $11,550,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $13,513,000 to $23,463,000.

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.

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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in interest rate swap contracts had a total USD equivalent notional amount generally indicative of a range from approximately $23,021,000 to $46,521,000.

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, 2017, 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, 2017, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in forward currency contracts U.S. dollars purchased had a total contract value generally indicative of a range from $796,000 to approximately $10,899,000, and the investment in forward currency contracts U.S. dollars sold had a total contract value generally indicative of a range from $0 to approximately $5,542,000.

The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $6,409,000 to approximately $12,896,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2017 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)	$ —	$ 825,405	$ 107,013	$ 932,418
Foreign Exchange Contracts (b)	158,194	—	—	158,194
	$ 158,194	**$ 825,405**	**$ 107,013**	**$ 1,090,612**

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

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

(b) Unrealized appreciation on forward currency exchange contracts

Liability Derivatives	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (c)	$ —	$ (118,302)	$ (163,632)	$ (281,934)
Foreign Exchange Contracts (d)	(256,807)	—	—	(256,807)
	$ (256,807)	**$ (118,302)**	**$ (163,632)**	**$ (538,741)**

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

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

(d) 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, 2017 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contract (e)	$ —	$ (115,996)	$ (301,836)	$ (417,832)
Foreign Exchange Contracts (f)	141,498	—	—	141,498
	$ 141,498	**$ (115,996)**	**$ (301,836)**	**$ (276,334)**

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

(e) Net realized gain (loss) from swap contracts and futures, respectively

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

Change in Net Unrealized Appreciation (Depreciation)	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (g)	$ —	$ 457,285	$ (125,443)	$ 331,842
Foreign Exchange Contracts (h)	(97,909)	—	—	(97,909)
	$ (97,909)	**$ 457,285**	**$ (125,443)**	**$ 233,933**

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

(g) Change in net unrealized appreciation (depreciation) on swap contracts and futures, respectively

(h) 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, 2017, the Fund has transactions subject to enforceable master netting agreements which govern the terms of certain transactions, and reduce the counterparty risk associated with such transactions. Master netting agreements allow a Fund to close out and net total exposure to a counterparty in the event of a deterioration in the credit quality or contractual default with respect to all of the transactions with a counterparty. As defined by the master netting agreement, the Fund may have collateral agreements with certain counterparties to mitigate risk. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivatives assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by a 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.	$ 4,266	$ (4,266)	$ —	$ —
Barclays Bank PLC	16,196	—	—	16,196
Canadian Imperial Bank of Commerce	29,096	(5,517)	—	23,579
Citigroup, Inc.	43,623	(393)	—	43,230
Danske Bank AS	42,680	(42,680)	—	—
JPMorgan Chase Securities, Inc.	22,333	(22,333)	—	—
	$ 158,194	**$ (75,189)**	**$ —**	**$ 83,005**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Australia & New Zealand Banking Group Ltd.	$ 91,441	$ (4,266)	$ —	$ 87,175
Bank of America	20,429	—	—	20,429
BNP Paribas	17,618	—	—	17,618
Canadian Imperial Bank of Commerce	5,517	(5,517)	—	—
Citigroup, Inc.	393	(393)	—	—
Danske Bank AS	55,915	(42,680)	—	13,235
Goldman Sachs & Co.	12,405	—	—	12,405
JPMorgan Chase Securities, Inc.	51,934	(22,333)	—	29,601
Toronto Dominion Bank	1,155	—	—	1,155
	$ 256,807	**$ (75,189)**	**$ —**	**$ 181,618**

C. Purchases and Sales of Securities

During the six months ended June 30, 2017, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $63,207,453 and $55,123,255, respectively. Purchases and sales of U.S. Treasury obligations aggregated $16,607,795 and $26,549,589, respectively.

D. Related Parties

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

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

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

Accordingly, for the six months ended June 30, 2017, 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, 2017 through April 30, 2017, the Advisor had contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.64%.

Effective May 1, 2017 through April 30, 2018, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.66%.

For the six months ended June 30, 2017, fees waived and/or expenses reimbursed were $40,038.

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, 2017, the Administration Fee was $37,345, of which $6,127 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, 2017, the amounts charged to the Fund by DSC aggregated $281, of which $137 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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $7,184, 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $312.

E. Ownership of the Fund

At June 30, 2017, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 37%, 25%, 16% and 11%, respectively.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement.

At June 30, 2017, the Fund had a $100,000 outstanding loan. Interest expense incurred on the borrowings was $129 for the six months ended June 30, 2017. The average dollar amount of the borrowings was $375,000, the weighted average interest rate on these borrowings was 2.09% and the Fund had a loan outstanding for 6 days throughout the period. The borrowings were valued at cost, which approximates fair value.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,034.20
Expenses Paid per $1,000*	$ 3.28

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,021.57
Expenses Paid per $1,000*	$ 3.26

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series I — Deutsche Bond VIP	.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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Bond VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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 five-year period and has underperformed its benchmark in the one- and three-year periods ended December 31, 2015.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM manages an institutional account comparable to the Fund, but that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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-028373-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series I

Deutsche Capital Growth VIP

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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. The Fund may lend securities to approved institutions. See the prospectus for details.

Performance Summary

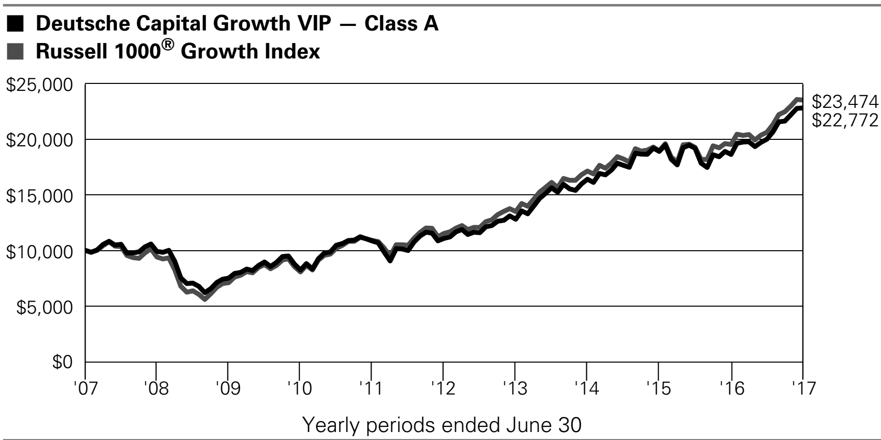
June 30, 2017 (Unaudited)

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, 2017 are 0.50% 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.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment



The Russell 1000® Growth Index is an unmanaged index that consists of those stocks in the Russell 1000® Index that have 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	$11,406	$12,240	$13,899	$20,579	$22,772
	Average annual total return	14.06%	22.40%	11.60%	15.53%	8.58%
Russell 1000 Growth Index	Growth of $10,000	$11,399	$12,042	$13,716	$20,380	$23,474
	Average annual total return	13.99%	20.42%	11.11%	15.30%	8.91%

Deutsche Capital Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,392	$12,214	$13,796	$20,291	$22,087
	Average annual total return	13.92%	22.14%	11.32%	15.20%	8.25%
Russell 1000 Growth Index	Growth of $10,000	$11,399	$12,042	$13,716	$20,380	$23,474
	Average annual total return	13.99%	20.42%	11.11%	15.30%	8.91%

The growth of $10,000 is cumulative.

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

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio)	**6/30/17**	**12/31/16**
Common Stocks	98%	99%
Cash Equivalents	2%	1%
Convertible Preferred Stocks	0%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents)	**6/30/17**	**12/31/16**
Information Technology	34%	31%
Consumer Discretionary	18%	18%
Health Care	17%	17%
Industrials	11%	10%
Consumer Staples	7%	10%
Financials	5%	5%
Materials	3%	4%
Real Estate	2%	2%
Telecommunication Services	2%	2%
Energy	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 Manager

Sebastian P. Werner, PhD, Director
Portfolio Manager

	Shares	Value ($)
Common Stocks 97.7%		
Consumer Discretionary 17.5%		
Hotels, Restaurants & Leisure 0.7%		
Las Vegas Sands Corp.	94,234	**6,020,610**
Household Durables 1.6%		
Newell Brands, Inc.	259,615	**13,920,557**
Internet & Direct Marketing Retail 3.4%		
Amazon.com, Inc.*	29,410	**28,468,880**
Media 5.3%		
Comcast Corp. "A"	392,122	15,261,388
Time Warner, Inc.	116,220	11,669,650
Walt Disney Co.	166,338	17,673,413
		44,604,451
Multiline Retail 0.5%		
Dollar General Corp.	57,402	**4,138,110**
Specialty Retail 4.8%		
Burlington Stores, Inc.*	50,355	4,632,156
Home Depot, Inc.	143,271	21,977,771
L Brands, Inc.	128,338	6,916,135
O'Reilly Automotive, Inc.*	32,940	7,205,296
		40,731,358
Textiles, Apparel & Luxury Goods 1.2%		
NIKE, Inc. "B"	173,948	**10,262,932**
Consumer Staples 7.2%		
Beverages 1.8%		
PepsiCo, Inc.	128,191	**14,804,779**
Food & Staples Retailing 2.7%		
Costco Wholesale Corp.	51,238	8,194,493
CVS Health Corp.	158,648	12,764,818
Rite Aid Corp.*	600,108	1,770,319
		22,729,630
Food Products 1.7%		
Conagra Brands, Inc.	104,490	3,736,562
Pinnacle Foods, Inc.	181,812	10,799,633
		14,536,195
Personal Products 1.0%		
Estee Lauder Companies, Inc. "A"	90,481	**8,684,366**
Energy 0.8%		
Oil, Gas & Consumable Fuels		
Concho Resources, Inc.*	53,183	**6,463,330**
Financials 4.8%		
Banks 1.0%		
SVB Financial Group*	45,912	**8,070,871**
Capital Markets 2.2%		
Intercontinental Exchange, Inc.	137,833	9,085,951
The Charles Schwab Corp.	216,882	9,317,251
		18,403,202
Insurance 1.6%		
Progressive Corp.	314,870	**13,882,618**
Health Care 17.0%		
Biotechnology 7.0%		
Alexion Pharmaceuticals, Inc.*	32,384	3,940,161
Biogen, Inc.*	25,322	6,871,378
BioMarin Pharmaceutical, Inc.*	60,384	5,484,075
Celgene Corp.*	170,525	22,146,082
Gilead Sciences, Inc.	182,186	12,895,125
Shire PLC (ADR)	44,184	7,302,289
		58,639,110
Health Care Equipment & Supplies 3.8%		
Becton, Dickinson & Co.	81,651	15,930,927
Danaher Corp.	128,361	10,832,385
The Cooper Companies, Inc.	20,003	4,789,118
		31,552,430
Health Care Providers & Services 2.5%		
Cigna Corp.	87,541	14,653,488
McKesson Corp.	40,840	6,719,814
		21,373,302
Life Sciences Tools & Services 1.8%		
Thermo Fisher Scientific, Inc.	88,110	**15,372,552**
Pharmaceuticals 1.9%		
Allergan PLC	49,375	12,002,569
Bristol-Myers Squibb Co.	76,863	4,282,806
		16,285,375
Industrials 10.3%		
Aerospace & Defense 3.1%		
Boeing Co.	93,119	18,414,282
TransDigm Group, Inc.	29,479	7,926,019
		26,340,301
Electrical Equipment 2.1%		
Acuity Brands, Inc.	22,605	4,595,144
AMETEK, Inc.	209,645	12,698,198
		17,293,342
Industrial Conglomerates 1.3%		
Roper Technologies, Inc.	48,838	**11,307,462**
Machinery 0.7%		
Parker-Hannifin Corp.	36,162	**5,779,411**
Professional Services 1.9%		
Equifax, Inc.	37,966	5,217,287
Verisk Analytics, Inc.*	126,475	10,670,696
		15,887,983
Road & Rail 1.2%		
Norfolk Southern Corp.	81,684	**9,940,943**
Information Technology 33.2%		
Internet Software & Services 6.9%		
Alphabet, Inc. "A"*	22,758	21,157,658
Alphabet, Inc. "C"*	20,914	19,005,179
Facebook, Inc. "A"*	122,856	18,548,799
		58,711,636
IT Services 7.4%		
Cognizant Technology Solutions Corp. "A"	190,362	12,640,037
Fidelity National Information Services, Inc.	118,728	10,139,371
Fiserv, Inc.*	73,997	9,052,793
Global Payments, Inc.	70,863	6,400,346
Visa, Inc. "A"	257,967	24,192,146
		62,424,693

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

	Shares	Value ($)
Semiconductors & Semiconductor Equipment 5.2%		
Analog Devices, Inc.	108,081	8,408,702
Broadcom Ltd.	76,000	17,711,800
NVIDIA Corp.	82,840	11,975,350
NXP Semiconductors NV*	51,116	5,594,646
		43,690,498
Software 6.9%		
Adobe Systems, Inc.*	82,864	11,720,284
Microsoft Corp.	575,140	39,644,400
Oracle Corp.	133,386	6,687,974
		58,052,658
Technology Hardware, Storage & Peripherals 6.8%		
Apple, Inc.	400,599	**57,694,268**
Materials 2.8%		
Chemicals 1.1%		
Albemarle Corp.	85,974	**9,073,696**
Construction Materials 0.9%		
Vulcan Materials Co.	60,237	**7,630,823**
Containers & Packaging 0.8%		
Sealed Air Corp.	158,397	**7,089,850**
Real Estate 2.3%		
Equity Real Estate Investment Trusts (REITs)		
Digital Realty Trust, Inc.	97,320	10,992,294
Prologis, Inc.	147,007	8,620,490
		19,612,784
Telecommunication Services 1.8%		
Diversified Telecommunication Services		
Level 3 Communications, Inc.*	106,285	6,302,701
Zayo Group Holdings, Inc.*	295,187	9,121,278
		15,423,979
Total Common Stocks (Cost $463,561,085)		**824,898,985**

	Shares	Value ($)
Convertible Preferred Stocks 0.1%		
Health Care 0.1%		
Allergan PLC, Series A, 5.5%	1,100	**954,888**
Industrials 0.0%		
Stericycle, Inc. Series A, 5.25%	3,000	**200,820**
Total Convertible Preferred Stocks (Cost $1,400,000)		**1,155,708**
Cash Equivalents 2.3%		
Deutsche Central Cash Management Government Fund, 1.03% (a) (Cost $19,391,909)	19,391,909	**19,391,909**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $484,352,994)†	100.1	**845,446,602**
Other Assets and Liabilities, Net	(0.1)	**(591,579)**
Net Assets	100.0	**844,855,023**

* Non-income producing security.

† The cost for federal income tax purposes was $485,177,586. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $360,269,016. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $374,550,593 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $14,281,577.

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

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, 2017 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (b)	$ 824,898,985	$ —	$ —	$ 824,898,985
Convertible Preferred Stocks (b)	1,155,708	—	—	1,155,708
Short-Term Investments	19,391,909	—	—	19,391,909
Total	**$ 845,446,602**	**$ —**	**$ —**	**$ 845,446,602**

There have been no transfers between fair value measurement levels during the period ended June 30, 2017.

(b) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of June 30, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $464,961,085)	$	826,054,693
Investment in Deutsche Central Cash Management Government Fund (cost $19,391,909)		19,391,909
Total investments in securities, at value (cost $484,352,994)		845,446,602
Receivable for Fund shares sold		26,653
Dividends receivable		215,020
Interest receivable		17,624
Due from Advisor		34,034
Other assets		4,192
Total assets		845,744,125
Liabilities		
Payable for Fund shares redeemed		476,333
Accrued management fee		260,685
Accrued Trustees' fees		389
Other accrued expenses and payables		151,695
Total liabilities		889,102
Net assets, at value	**$**	**844,855,023**
Net Assets Consist of		
Undistributed net investment income		3,306,995
Net unrealized appreciation (depreciation) on Investments		361,093,608
Accumulated net realized gain (loss)		14,006,574
Paid-in capital		466,447,846
Net assets, at value	**$**	**844,855,023**
Class A		
Net Asset Value, offering and redemption price per share ($838,990,679 ÷ 30,100,172 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**27.87**
Class B		
Net Asset Value, offering and redemption price per share ($5,864,344 ÷ 210,885 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**27.81**

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income		
Income:		
Dividends	$	5,185,635
Income distributions — Deutsche Central Cash Management Government Fund		84,030
Securities lending income, net of borrower rebates		752
Total income		5,270,417
Expenses:		
Management fee		1,507,328
Administration fee		404,475
Services to shareholders		1,734
Record keeping fee (Class B)		67
Distribution service fees (Class B)		7,207
Custodian fee		4,824
Professional fees		40,001
Reports to shareholders		25,159
Trustees' fees and expenses		21,462
Other		16,832
Total expenses		2,029,089
Net investment income (loss)		**3,241,328**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from Investments		14,883,215
Payments by affiliates (see Note F)		34,034
		14,917,249
Change in net unrealized appreciation (depreciation) on investments		87,596,263
Net gain (loss)		**102,513,512**
Net increase (decrease) in net assets resulting from operations	**$**	**105,754,840**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income (loss)	$ 3,241,328	$ 6,308,105
Net realized gain (loss)	14,917,249	70,814,016
Change in net unrealized appreciation (depreciation)	87,596,263	(49,459,182)
Net increase (decrease) in net assets resulting from operations	105,754,840	27,662,939
Distributions to shareholders from:		
Net investment income:		
Class A	(6,004,257)	(6,231,720)
Class B	(28,374)	(20,032)
Net realized gains:		
Class A	(63,517,984)	(66,067,535)
Class B	(466,086)	(322,737)
Total distributions	(70,016,701)	(72,642,024)
Fund share transactions:		
Class A		
Proceeds from shares sold	41,282,119	15,616,714
Reinvestment of distributions	69,522,241	72,299,255
Payments for shares redeemed	(52,138,055)	(147,165,346)
Net increase (decrease) in net assets from Class A share transactions	58,666,305	(59,249,377)
Class B		
Proceeds from shares sold	1,026,940	2,848,370
Reinvestment of distributions	494,460	342,769
Payments for shares redeemed	(1,175,597)	(1,421,396)
Net increase (decrease) in net assets from Class B share transactions	345,803	1,769,743
Increase (decrease) in net assets	94,750,247	(102,458,719)
Net assets at beginning of period	750,104,776	852,563,495
Net assets at end of period (including undistributed net investment income of $3,306,995 and $6,098,298, respectively)	**$ 844,855,023**	**$ 750,104,776**

Other Information		
Class A		
Shares outstanding at beginning of period	27,895,381	30,084,968
Shares sold	1,489,917	591,265
Shares issued to shareholders in reinvestment of distributions	2,573,944	2,877,010
Shares redeemed	(1,859,070)	(5,657,862)
Net increase (decrease) in Class A shares	2,204,791	(2,189,587)
Shares outstanding at end of period	**30,100,172**	**27,895,381**
Class B		
Shares outstanding at beginning of period	197,662	127,214
Shares sold	37,029	111,807
Shares issued to shareholders in reinvestment of distributions	18,341	13,667
Shares redeemed	(42,147)	(55,026)
Net increase (decrease) in Class B shares	13,223	70,448
Shares outstanding at end of period	**210,885**	**197,662**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$26.70**	**$28.22**	**$29.95**	**$28.41**	**$21.38**	**$18.58**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.11	.21	.20	.21	.21	.28
Net realized and unrealized gain (loss)	3.57	.83	2.34	3.18	7.12	2.70
Total from investment operations	3.68	1.04	2.54	3.39	7.33	2.98
Less distributions from:						
Net investment income	(.22)	(.22)	(.22)	(.18)	(.30)	(.18)
Net realized gains	(2.29)	(2.34)	(4.05)	(1.67)	—	—
Total distributions	(2.51)	(2.56)	(4.27)	(1.85)	(.30)	(.18)
Net asset value, end of period	**$27.87**	**$26.70**	**$28.22**	**$29.95**	**$28.41**	**$21.38**
Total Return (%)	14.06**	4.25	8.62	12.97	34.65	16.05
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	839	745	849	890	837	701
Ratio of expenses (%)[b]	.50*	.50	.49	.50	.50	.50
Ratio of net investment income (loss) (%)	.80*	.82	.70	.76	.85	1.32
Portfolio turnover rate (%)	6**	35	35	47	37	25

a Based on average shares outstanding during the period.

b Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$26.61**	**$28.12**	**$29.84**	**$28.29**	**$21.29**	**$18.51**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.08	.15	.13	.09	.13	.20
Net realized and unrealized gain (loss)	3.55	.83	2.32	3.22	7.10	2.69
Total from investment operations	3.63	.98	2.45	3.31	7.23	2.89
Less distributions from:						
Net investment income	(.14)	(.15)	(.12)	(.09)	(.23)	(.11)
Net realized gains	(2.29)	(2.34)	(4.05)	(1.67)	—	—
Total distributions	(2.43)	(2.49)	(4.17)	(1.76)	(.23)	(.11)
Net asset value, end of period	**$27.81**	**$26.61**	**$28.12**	**$29.84**	**$28.29**	**$21.29**
Total Return (%)	13.92**	4.00	8.33	12.67	34.19	15.61
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	6	5	4	3	14	13
Ratio of expenses (%)[b]	.76*	.76	.76	.80	.83	.83
Ratio of net investment income (loss) (%)	.55*	.58	.44	.33	.52	.97
Portfolio turnover rate (%)	6**	35	35	47	37	25

a Based on average shares outstanding during the period.

b Expense ratio does not reflect charges and fees 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.

* 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds including Deutsche Government & Agency Securities Portfolio managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, the Fund had no securities on loan.

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, 2016 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, 2017, purchases and sales of investment securities (excluding short-term investments) aggregated $48,347,805 and $70,295,617, 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, 2017, 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, 2017 through September 30, 2017, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.80%
Class B	1.05%

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, 2017, the Administration Fee was $404,475, of which $70,013 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at June 30, 2017**
Class A	$ 362	$ 173
Class B	105	52
	$ 467	**$ 225**

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, 2017, the Distribution Service Fee aggregated $7,207, of which $1,234 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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,792, of which $5,238 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $57.

D. Ownership of the Fund

At June 30, 2017, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 47%, 30% and 10%, 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 56% and 37%, 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, 2017.

F. Payment by Affiliate

During the six months ended June 30, 2017, the Advisor agreed to reimburse the Fund $34,034 for commission costs incurred in connection with purchases and sales of portfolio assets due to certain changes in the principal investment strategy. The amount reimbursed was less than 0.01% of the Fund's average net assets, thus having no impact on the Fund's total return.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,140.60	$1,139.20
Expenses Paid per $1,000*	$ 2.65	$ 4.03
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,022.32	$1,021.03
Expenses Paid per $1,000*	$ 2.51	$ 3.81

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche Capital Growth VIP	.50%	.76%

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

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

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

Proxy Voting

The 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Capital Growth VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 2nd 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- and three-year periods and has underperformed its benchmark in the five-year period ended December 31, 2015.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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-028374-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series I

Deutsche Core Equity VIP

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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. 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

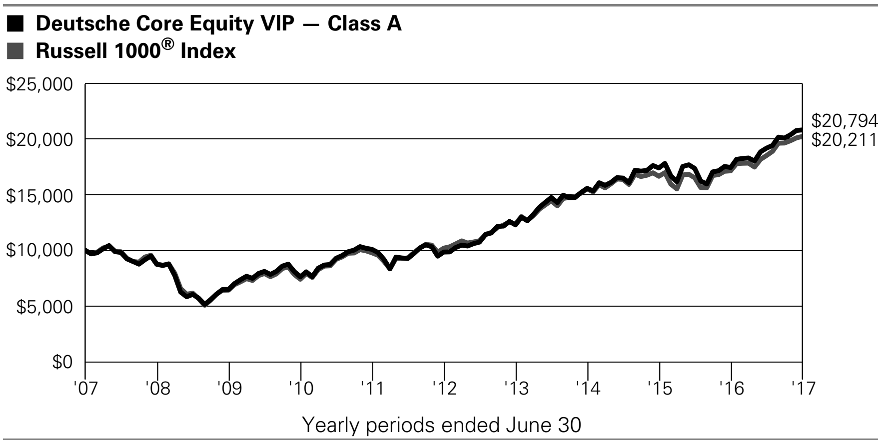
June 30, 2017 (Unaudited)

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, 2017 are 0.57% and 0.86% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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	$10,854	$11,933	$13,364	$21,140	$20,794
	Average annual total return	8.54%	19.33%	10.15%	16.15%	7.60%
Russell 1000® Index	Growth of $10,000	$10,927	$11,803	$13,044	$19,825	$20,211
	Average annual total return	9.27%	18.03%	9.26%	14.67%	7.29%

Deutsche Core Equity VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,838	$11,898	$13,254	$20,885	$20,283
	Average annual total return	8.38%	18.98%	9.85%	15.87%	7.33%
Russell 1000® Index	Growth of $10,000	$10,927	$11,803	$13,044	$19,825	$20,211
	Average annual total return	9.27%	18.03%	9.26%	14.67%	7.29%

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)	**6/30/17**	**12/31/16**
Common Stocks	100%	99%
Cash Equivalents	0%	1%
Convertible Preferred Stock	—	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
Information Technology	22%	21%
Financials	15%	17%
Health Care	14%	12%
Consumer Discretionary	12%	11%
Industrials	11%	11%
Consumer Staples	8%	9%
Energy	6%	8%
Real Estate	4%	3%
Utilities	3%	3%
Materials	3%	3%
Telecommunication Services	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 Management Team

Pankaj Bhatnagar, PhD, Managing Director
Di Kumble, CFA, Managing Director
Arno V. Puskar, Director
Portfolio Managers

Investment Portfolio

June 30, 2017 (Unaudited)

	Shares	Value ($)
Common Stocks 99.6%		
Consumer Discretionary 11.7%		
Auto Components 1.2%		
BorgWarner, Inc.	25,564	1,082,891
Goodyear Tire & Rubber Co.	26,710	933,782
		2,016,673
Hotels, Restaurants & Leisure 1.4%		
Brinker International, Inc.	38,401	1,463,078
Las Vegas Sands Corp.	14,053	897,846
		2,360,924
Household Durables 0.6%		
Newell Brands, Inc.	17,287	**926,929**
Internet & Direct Marketing Retail 2.0%		
Amazon.com, Inc.*	3,534	**3,420,912**
Media 3.2%		
Comcast Corp. "A"	48,505	1,887,815
Omnicom Group, Inc.	20,460	1,696,134
Regal Entertainment Group "A" (a)	42,518	869,918
Walt Disney Co.	9,582	1,018,087
		5,471,954
Specialty Retail 1.8%		
Home Depot, Inc.	4,677	717,452
L Brands, Inc.	25,455	1,371,770
Ulta Salon, Cosmetics & Fragrance, Inc.*	3,008	864,319
		2,953,541
Textiles, Apparel & Luxury Goods 1.5%		
NIKE, Inc. "B"	29,769	1,756,371
VF Corp.	13,950	803,520
		2,559,891
Consumer Staples 7.5%		
Beverages 1.6%		
PepsiCo, Inc.	23,874	**2,757,208**
Food & Staples Retailing 3.2%		
Sysco Corp.	62,907	3,166,109
Wal-Mart Stores, Inc.	21,716	1,643,467
Whole Foods Market, Inc.	12,036	506,836
		5,316,412
Food Products 2.4%		
Conagra Brands, Inc.	34,389	1,229,751
Pinnacle Foods, Inc.	24,534	1,457,319
The JM Smucker Co.	11,510	1,361,978
		4,049,048
Personal Products 0.3%		
Coty, Inc. "A"	13,878	260,351
Estee Lauder Companies, Inc. "A"	3,232	310,208
		570,559
Energy 6.4%		
Oil, Gas & Consumable Fuels		
Antero Resources Corp.*	42,952	928,193
Chevron Corp.	16,093	1,678,983
Concho Resources, Inc.*	21,239	2,581,175
Devon Energy Corp.	29,841	954,017
Energen Corp.*	23,843	1,177,129
EQT Corp.	31,710	1,857,889
Occidental Petroleum Corp.	15,150	907,030
Parsley Energy, Inc. "A"*	27,501	763,153
		10,847,569

	Shares	Value ($)
Financials 14.5%		
Banks 4.9%		
Citigroup, Inc.	62,764	4,197,656
PacWest Bancorp.	18,188	849,380
U.S. Bancorp.	60,722	3,152,686
		8,199,722
Capital Markets 6.7%		
Ameriprise Financial, Inc.	27,456	3,494,874
BlackRock, Inc.	2,463	1,040,396
E*TRADE Financial Corp.*	35,883	1,364,630
Lazard Ltd. "A"	29,843	1,382,626
Northern Trust Corp.	17,398	1,691,260
S&P Global, Inc.	9,351	1,365,153
SEI Investments Co.	19,214	1,033,329
		11,372,268
Insurance 2.9%		
Chubb Ltd.	14,861	2,160,492
MetLife, Inc.	49,320	2,709,641
		4,870,133
Health Care 14.2%		
Biotechnology 2.4%		
Gilead Sciences, Inc.	55,929	**3,958,655**
Health Care Equipment & Supplies 2.0%		
Becton, Dickinson & Co.	15,258	2,976,988
Boston Scientific Corp.*	14,471	401,136
		3,378,124
Health Care Providers & Services 2.6%		
Cardinal Health, Inc.	5,029	391,859
Cigna Corp.	13,825	2,314,167
McKesson Corp.	9,852	1,621,048
		4,327,074
Life Sciences Tools & Services 1.8%		
Thermo Fisher Scientific, Inc.	17,749	**3,096,668**
Pharmaceuticals 5.4%		
Allergan PLC	8,257	2,007,194
Bristol-Myers Squibb Co.	16,597	924,785
Eli Lilly & Co.	10,985	904,066
Endo International PLC*	39,414	440,254
Merck & Co., Inc.	29,061	1,862,520
Pfizer, Inc.	90,375	3,035,696
		9,174,515
Industrials 10.8%		
Aerospace & Defense 1.1%		
Boeing Co.	9,493	**1,877,241**
Electrical Equipment 2.4%		
AMETEK, Inc.	46,110	2,792,882
Regal Beloit Corp.	15,034	1,226,023
		4,018,905
Industrial Conglomerates 3.8%		
General Electric Co.	62,913	1,699,280
Honeywell International, Inc.	13,329	1,776,623
Roper Technologies, Inc.	12,836	2,971,919
		6,447,822
Machinery 1.8%		
Ingersoll-Rand PLC	15,238	1,392,601
Parker-Hannifin Corp.	10,071	1,609,547
		3,002,148

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

	Shares	Value ($)
Road & Rail 1.7%		
Norfolk Southern Corp.	24,460	**2,976,782**
Information Technology 22.3%		
Communications Equipment 1.1%		
Cisco Systems, Inc.	61,166	**1,914,496**
Internet Software & Services 3.6%		
Alphabet, Inc. "A"*	3,328	3,093,975
Alphabet, Inc. "C"*	2,925	2,658,036
Pandora Media, Inc.* (a)	31,472	280,730
		6,032,741
IT Services 5.1%		
Cognizant Technology Solutions Corp. "A"	17,708	1,175,811
Fidelity National Information Services, Inc.	31,622	2,700,519
Visa, Inc. "A"	50,889	4,772,370
		8,648,700
Semiconductors & Semiconductor Equipment 4.7%		
Analog Devices, Inc.	9,338	726,496
Intel Corp.	33,046	1,114,972
NVIDIA Corp.	20,220	2,923,003
Texas Instruments, Inc.	16,358	1,258,421
Xilinx, Inc.	28,386	1,825,788
		7,848,680
Software 3.7%		
Microsoft Corp.	90,754	**6,255,673**
Technology Hardware, Storage & Peripherals 4.1%		
Apple, Inc.	48,416	**6,972,872**
Materials 3.3%		
Chemicals 1.0%		
AdvanSix, Inc.*	533	16,651
Albemarle Corp.	15,818	1,669,431
		1,686,082
Construction Materials 0.9%		
Vulcan Materials Co.	11,707	**1,483,043**
Metals & Mining 1.4%		
Freeport-McMoRan, Inc.*	103,350	1,241,234
Steel Dynamics, Inc.	34,362	1,230,503
		2,471,737
Real Estate 3.6%		
Equity Real Estate Investment Trusts (REITs)		
Digital Realty Trust, Inc.	29,678	3,352,130
Kimco Realty Corp.	40,597	744,955
Prologis, Inc.	27,289	1,600,227
STORE Capital Corp.	18,015	404,437
		6,101,749
Telecommunication Services 1.9%		
Diversified Telecommunication Services 0.3%		
Frontier Communications Corp. (a)	411,587	**477,441**
Wireless Telecommunication Services 1.6%		
T-Mobile U.S., Inc.*	44,356	**2,688,861**
Utilities 3.4%		
Electric Utilities 1.0%		
NextEra Energy, Inc.	12,320	**1,726,402**
Multi-Utilities 1.0%		
CenterPoint Energy, Inc.	60,377	**1,653,122**
Water Utilities 1.4%		
American Water Works Co., Inc.	30,410	**2,370,459**
Total Common Stocks (Cost $129,980,004)		**168,283,735**

Securities Lending Collateral 1.0%

	Shares	Value ($)
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (b) (c) (Cost $1,684,957)	1,684,957	**1,684,957**

Cash Equivalents 0.4%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 1.03% (b) (Cost $713,974)	713,974	**713,974**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $132,378,935)†	101.0	**170,682,666**
Other Assets and Liabilities, Net	(1.0)	**(1,655,010)**
Net Assets	100.0	**169,027,656**

* Non-income producing security.

† The cost for federal income tax purposes was $132,582,374. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $38,100,292. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $42,596,088 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,495,796.

(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, 2017 amounted to $1,607,251, which is 1.0% of net assets.

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

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

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, 2017 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)	$168,283,735	$ —	$ —	$168,283,735
Short-Term Investments (d)	2,398,931	—	—	2,398,931
Total	**$170,682,666**	**$ —**	**$ —**	**$170,682,666**

There have been no transfers between fair value measurement levels during the period ended June 30, 2017.

(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, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $129,980,004) — including $1,607,251 of securities loaned	$	168,283,735
Investment in Deutsche Government & Agency Securities Portfolio (cost $1,684,957)*		1,684,957
Investment in Deutsche Central Cash Management Government Fund (cost $713,974)		713,974
Total investments in securities, at value (cost $132,378,935)		170,682,666
Cash		10,000
Receivable for Fund shares sold		111,636
Dividends receivable		129,390
Interest receivable		3,686
Foreign taxes recoverable		829
Other assets		1,070
Total assets		170,939,277
Liabilities		
Payable upon return of securities loaned		1,684,957
Payable for Fund shares redeemed		91,726
Accrued management fee		54,688
Accrued Trustees' fees		732
Other accrued expenses and payables		79,518
Total liabilities		1,911,621
Net assets, at value	**$**	**169,027,656**
Net Assets Consist of		
Undistributed net investment income		1,173,486
Net unrealized appreciation (depreciation) on investments		38,303,731
Accumulated net realized gain (loss)		7,822,104
Paid-in capital		121,728,335
Net assets, at value	**$**	**169,027,656**
Class A		
Net Asset Value, offering and redemption price per share ($166,780,101 ÷ 12,702,608 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**13.13**
Class B		
Net Asset Value, offering and redemption price per share ($2,247,555 ÷ 171,209 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**13.13**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $1,687)	$	1,616,463
Income distributions — Deutsche Central Cash Management Government Fund		2,877
Securities lending income, net of borrower rebates		10,616
Total income		1,629,956
Expenses:		
Management fee		325,901
Administration fee		83,564
Services to shareholders		732
Record keeping fee (Class B)		308
Distribution service fee (Class B)		2,664
Custodian fee		936
Professional fees		37,465
Reports to shareholders		14,972
Trustees' fees and expenses		5,914
Other		5,300
Total expenses		477,756
Net investment income		**1,152,200**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		8,111,227
Change in net unrealized appreciation (depreciation) on investments		4,510,601
Net gain (loss)		**12,621,828**
Net increase (decrease) in net assets resulting from operations	**$**	**13,774,028**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income	$ 1,152,200	$ 2,159,171
Net realized gain (loss)	8,111,227	11,458,572
Change in net unrealized appreciation (depreciation)	4,510,601	1,593,775
Net increase (decrease) in net assets resulting from operations	13,774,028	15,211,518
Distributions to shareholders from:		
Net investment income:		
Class A	(2,009,714)	(2,276,718)
Class B	(19,752)	(23,854)
Net realized gains:		
Class A	(11,463,123)	(14,473,682)
Class B	(148,543)	(187,911)
Total distributions	(13,641,132)	(16,962,165)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,139,369	5,821,528
Reinvestment of distributions	13,472,837	16,750,400
Payments for shares redeemed	(12,780,236)	(34,089,364)
Net increase (decrease) in net assets from Class A share transactions	3,831,970	(11,517,436)
Class B		
Proceeds from shares sold	189,508	189,791
Reinvestment of distributions	168,295	211,765
Payments for shares redeemed	(158,500)	(396,205)
Net increase (decrease) in net assets from Class B share transactions	199,303	5,351
Increase (decrease) in net assets	4,164,169	(13,262,732)
Net assets at beginning of period	164,863,487	178,126,219
Net assets at end of period (including undistributed net investment income of $1,173,486 and $2,050,752, respectively)	**$ 169,027,656**	**$ 164,863,487**

Other Information		
Class A		
Shares outstanding at beginning of period	12,373,665	13,252,114
Shares sold	232,428	461,980
Shares issued to shareholders in reinvestment of distributions	1,047,654	1,400,535
Shares redeemed	(951,139)	(2,740,964)
Net increase (decrease) in Class A shares	328,943	(878,449)
Shares outstanding at end of period	**12,702,608**	**12,373,665**
Class B		
Shares outstanding at beginning of period	155,615	154,548
Shares sold	14,365	15,369
Shares issued to shareholders in reinvestment of distributions	13,087	17,691
Shares redeemed	(11,858)	(31,993)
Net increase (decrease) in Class B shares	15,594	1,067
Shares outstanding at end of period	**171,209**	**155,615**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$13.16**	**$13.29**	**$12.76**	**$11.54**	**$ 8.53**	**$ 7.46**
Income (loss) from investment operations:						
Net investment income[a]	.09	.17	.15	.10	.12	.15
Net realized and unrealized gain (loss)	1.01	1.09	.52	1.25	3.03	1.03
Total from investment operations	1.10	1.26	.67	1.35	3.15	1.18
Less distributions from:						
Net investment income	(.17)	(.19)	(.11)	(.13)	(.14)	(.11)
Net realized gains	(.96)	(1.20)	(.03)	—	—	—
Total distributions	(1.13)	(1.39)	(.14)	(.13)	(.14)	(.11)
Net asset value, end of period	**$13.13**	**$13.16**	**$13.29**	**$12.76**	**$11.54**	**$ 8.53**
Total Return (%)	8.54**	10.48	5.25	11.82	37.33	15.81
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	167	163	176	220	223	180
Ratio of expenses (%)	.57*	.57	.56	.57	.56	.59
Ratio of net investment income (%)[b]	1.38*	1.34	1.11	.86	1.20	1.90
Portfolio turnover rate (%)	17**	43	27	48	238	307

a Based on average shares outstanding during the period.

b Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$13.14**	**$13.26**	**$12.74**	**$11.53**	**$ 8.51**	**$ 7.45**
Income (loss) from investment operations:						
Net investment income[a]	.07	.13	.11	.07	.10	.11
Net realized and unrealized gain (loss)	1.01	1.10	.52	1.24	3.03	1.03
Total from investment operations	1.08	1.23	.63	1.31	3.13	1.14
Less distributions from:						
Net investment income	(.13)	(.15)	(.08)	(.10)	(.11)	(.08)
Net realized gains	(.96)	(1.20)	(.03)	—	—	—
Total distributions	(1.09)	(1.35)	(.11)	(.10)	(.11)	(.08)
Net asset value, end of period	**$13.13**	**$13.14**	**$13.26**	**$12.74**	**$11.53**	**$ 8.51**
Total Return (%)	8.38**	10.25	4.91	11.52	37.10	15.41
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	2	2	2	2	2	2
Ratio of expenses (%)	.85*	.86	.83	.82	.76	.90
Ratio of net investment income (%)[b]	1.10*	1.06	.84	.60	1.00	1.41
Portfolio turnover rate (%)	17**	43	27	48	238	307

a Based on average shares outstanding during the period.

b Expense ratio does not reflect charges and fees 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.

* 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 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, 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. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016 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, 2017, purchases and sales of investment securities (excluding short-term investments) aggregated $28,025,975 and $34,749,944, 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, 2017, 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, 2017 through September 30, 2017, 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	.80%
Class B	1.08%

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2017, the Administration Fee was $83,564, of which $14,023 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2017
Class A	$ 302	$ 144
Class B	60	29
	$ 362	**$ 173**

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, 2017, the Distribution Service Fee aggregated $2,664, of which $469 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $6,005, of which $4,875 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, 2017, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $799.

D. Ownership of the Fund

At June 30, 2017, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 37%, 33% 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 61% 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, 2017.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,085.40	$1,083.80
Expenses Paid per $1,000*	$ 2.95	$ 4.39
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,021.97	$1,020.58
Expenses Paid per $1,000*	$ 2.86	$ 4.26

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche Core Equity VIP	.57%	.85%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Core Equity VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 1st quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-, three- and five-year periods ended December 31, 2015.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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-028376-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series I

Deutsche CROCI® International VIP

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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.

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. Stocks may decline in value. The Fund will be managed on the premise that stocks with lower CROCI® Economic P/E Ratios may outperform stocks with higher CROCI® Economic P/E Ratios over time. This premise may not always be correct and prospective investors should evaluate this assumption prior to investing in the Fund. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The Fund may lend securities to approved institutions. See the prospectus for details.

In June 2016, citizens of the United Kingdom voted that the United Kingdom should leave the European Union and in March 2017, the United Kingdom initiated its withdrawal from the European Union, which is expected to take place by March 2019. Significant uncertainty exists regarding the timing and terms of the United Kingdom's anticipated withdrawal from the European Union and the effects such withdrawal may have on the United Kingdom, other European countries and the global economy.

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

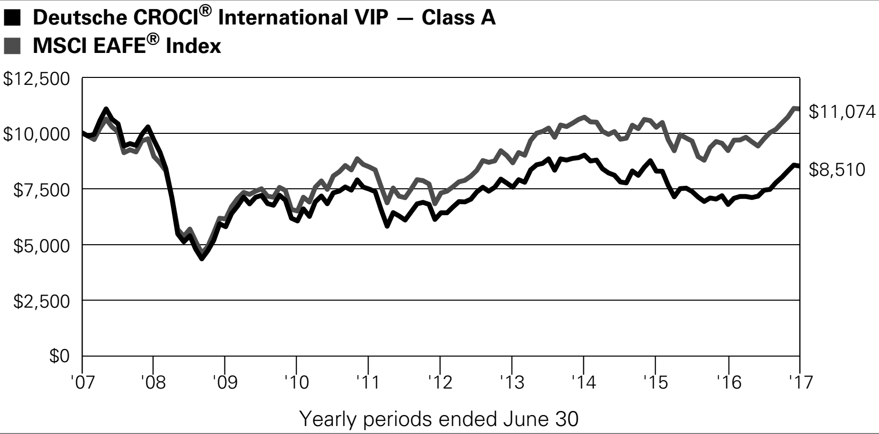
June 30, 2017 (Unaudited)

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, 2017 are 1.12% and 1.40% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment



MSCI EAFE Index is an equity index which captures large and mid cap representation across developed markets countries around the world, excluding the US and Canada.

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	$11,465	$12,530	$9,450	$13,264	$8,510
	Average annual total return	14.65%	25.30%	–1.87%	5.81%	–1.60%
MSCI EAFE® Index	Growth of $10,000	$11,381	$12,027	$10,348	$15,169	$11,074
	Average annual total return	13.81%	20.27%	1.15%	8.69%	1.03%

Deutsche CROCI® International VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,448	$12,510	$9,381	$13,103	$8,287
	Average annual total return	14.48%	25.10%	–2.11%	5.55%	–1.86%
MSCI EAFE® Index	Growth of $10,000	$11,381	$12,027	$10,348	$15,169	$11,074
	Average annual total return	13.81%	20.27%	1.15%	8.69%	1.03%

The growth of $10,000 is cumulative.

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

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio)	**6/30/17**	**12/31/16**
Common Stocks	95%	94%
Cash Equivalents	3%	6%
Preferred Stock	2%	—
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents)	**6/30/17**	**12/31/16**
Japan	24%	23%
United Kingdom	19%	27%
Switzerland	17%	19%
Germany	12%	8%
France	10%	6%
Hong Kong	8%	7%
Singapore	4%	4%
Spain	2%	4%
Finland	2%	—
Netherlands	2%	2%
Austria	0%	—
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents)	**6/30/17**	**12/31/16**
Industrials	26%	28%
Consumer Staples	18%	11%
Health Care	18%	17%
Consumer Discretionary	18%	23%
Utilities	14%	17%
Materials	6%	4%
Real Estate	0%	—
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

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

	Shares	Value ($)
Common Stocks 94.8%		
Austria 0.0%		
Immofinanz AG* (Cost $0)	6,693	**15,296**
Finland 2.1%		
Fortum Oyj (Cost $2,014,445)	136,218	**2,136,132**
France 10.0%		
Cie Generale des Etablissements Michelin	15,412	2,048,967
Danone SA	28,526	2,144,153
L'Oreal SA	9,804	2,042,449
Pernod Ricard SA	15,874	2,125,799
Sanofi	21,395	2,046,784
(Cost $9,528,754)		**10,408,152**
Germany 9.6%		
Bayer AG (Registered)	16,278	2,104,605
Beiersdorf AG	19,930	2,095,110
Continental AG	8,974	1,936,672
Merck KGaA	16,822	2,031,800
Siemens AG (Registered)	13,729	1,887,157
(Cost $8,882,821)		**10,055,344**
Hong Kong 7.7%		
CLP Holdings Ltd.	188,149	1,990,548
HK Electric Investments & HK Electric Investments Ltd. "SS", 144A, (Units)	2,266,500	2,090,158
Hong Kong & China Gas Co., Ltd.	1,098,632	2,065,709
MTR Corp., Ltd.	343,731	1,934,944
(Cost $6,775,771)		**8,081,359**
Japan 23.3%		
ANA Holdings, Inc.	662,000	2,297,798
Astellas Pharma, Inc.	146,000	1,784,192
Bridgestone Corp.	47,608	2,048,657
Central Japan Railway Co.	11,600	1,888,384
Daiichi Sankyo Co., Ltd.	90,200	2,122,778
ITOCHU Corp.	141,100	2,093,762
Osaka Gas Co., Ltd.	532,000	2,173,407
Secom Co., Ltd.	27,500	2,084,352
Sekisui House Ltd.	120,400	2,118,976
Subaru Corp.	51,700	1,740,264
Sumitomo Electric Industries Ltd.	122,100	1,878,044
Toyota Industries Corp.	39,935	2,098,385
(Cost $22,666,144)		**24,328,999**
Netherlands 1.9%		
Koninklijke DSM NV (Cost $1,824,250)	27,804	**2,020,973**
Singapore 3.7%		
Keppel Corp., Ltd.	421,916	1,927,621
Singapore Airlines Ltd.	268,341	1,972,479
(Cost $4,334,733)		**3,900,100**
Spain 2.1%		
Iberdrola SA (Cost $1,922,018)	276,860	**2,192,322**
Switzerland 15.8%		
ABB Ltd. (Registered)	81,504	2,012,738
Givaudan SA (Registered)	1,018	2,036,212
Kuehne + Nagel International AG (Registered)	13,190	2,200,855
Nestle SA (Registered)	25,543	2,222,926
Novartis AG (Registered)	25,794	2,146,586
Roche Holding AG (Genusschein)	7,601	1,935,722
Schindler Holding AG	9,701	2,052,699
Wolseley PLC	31,359	1,924,955
(Cost $14,963,084)		**16,532,693**
United Kingdom 18.6%		
British American Tobacco PLC	29,394	2,003,795
Bunzl PLC	64,487	1,921,716
Diageo PLC	68,646	2,028,220
GlaxoSmithKline PLC	99,914	2,128,325
Imperial Brands PLC	40,255	1,808,052
Johnson Matthey PLC	52,205	1,952,119
Kingfisher PLC	466,356	1,826,467
National Grid PLC	140,335	1,739,693
Persimmon PLC	66,231	1,934,006
Smith & Nephew PLC	121,325	2,093,761
(Cost $19,239,164)		**19,436,154**
Total Common Stocks (Cost $92,151,184)		**99,107,524**
Preferred Stock 1.9%		
Germany		
Henkel AG & Co. KGaA (Cost $1,776,435)	14,534	**2,000,300**
Cash Equivalents 2.6%		
Deutsche Central Cash Management Government Fund, 1.03% (a) (Cost $2,717,888)	2,717,888	**2,717,888**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $96,645,507)†	99.3	**103,825,712**
Other Assets and Liabilities, Net	0.7	**684,203**
Net Assets	100.0	**104,509,915**

* Non-income producing security.

† The cost for federal income tax purposes was $97,567,706. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $6,258,006. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $9,317,959 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,059,953.

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

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.

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

As of June 30, 2017, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
JPY	2,751,942,949	USD	24,558,117	7/31/2017	**57,234**	Citigroup,Inc.

Currency Abbreviations			
JPY	Japanese Yen	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.

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, 2017 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				
Austria	$ 15,296	$ —	$ —	$ 15,296
Finland	2,136,132	—	—	2,136,132
France	10,408,152	—	—	10,408,152
Germany	10,055,344	—	—	10,055,344
Hong Kong	8,081,359	—	—	8,081,359
Japan	24,328,999	—	—	24,328,999
Netherlands	2,020,973	—	—	2,020,973
Singapore	3,900,100	—	—	3,900,100
Spain	2,192,322	—	—	2,192,322
Switzerland	16,532,693	—	—	16,532,693
United Kingdom	19,436,154	—	—	19,436,154
Preferred Stock	2,000,300	—	—	2,000,300
Short-Term Investments	2,717,888	—	—	2,717,888
Derivatives (b)				
Forward Foreign Currency Exchange Contracts	—	57,234	—	57,234
Total	**$103,825,712**	**$ 57,234**	**$ —**	**$103,882,946**

As a result of the fair valuation model utilized by the Fund, certain international securities transferred from Level 2 to Level 1. During the period ended June 30, 2017, the amount of the transfers between Level 2 and Level 1 was $88,543,680.

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

(b) 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, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $93,927,619)	$	101,107,824
Investment in Deutsche Central Cash Management Government Fund (cost $2,717,888)		2,717,888
Total investments, at value (cost $96,645,507)		103,825,712
Foreign currency, at value (cost $176,767)		178,979
Receivable for Fund shares sold		8,162
Dividends receivable		392,267
Interest receivable		1,787
Unrealized appreciation on forward foreign currency exchange contracts		57,234
Foreign taxes recoverable		238,352
Other assets		1,609
Total assets		104,704,102
Liabilities		
Payable for Fund shares redeemed		61,380
Accrued management fee		41,994
Accrued Trustees' fees		452
Other accrued expenses and payables		90,361
Total liabilities		194,187
Net assets, at value	**$**	**104,509,915**
Net Assets Consist of		
Undistributed net investment income		2,034,968
Net unrealized appreciation (depreciation) on:		
Investments		7,180,205
Foreign currency		67,594
Accumulated net realized gain (loss)		(135,634,879)
Paid-in capital		230,862,027
Net assets, at value	**$**	**104,509,915**
Class A		
Net Asset Value, offering and redemption price per share ($104,197,744 ÷ 15,108,794 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.90**
Class B		
Net Asset Value, offering and redemption price per share ($312,171 ÷ 45,123 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.92**

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $176,866)	$	2,105,731
Income distributions — Deutsche Central Cash Management Government Fund		5,460
Securities lending income, net of borrower rebates		12,680
Total income		2,123,871
Expenses:		
Management fee		389,593
Administration fee		49,315
Services to shareholders		1,376
Distribution service fee (Class B)		367
Custodian fee		32,646
Professional fees		38,456
Reports to shareholders		17,131
Trustees' fees and expenses		3,259
Other		12,513
Total expenses before expense reductions		544,656
Expense reductions		(130,039)
Total expenses after expense reductions		414,617
Net investment income (loss)		**1,709,254**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		873,617
Foreign currency		(2,294,610)
		(1,420,993)
Change in net unrealized appreciation (depreciation) on:		
Investments		12,589,744
Foreign currency		518,968
		13,108,712
Net gain (loss)		**11,687,719**
Net increase (decrease) in net assets resulting from operations	**$**	**13,396,973**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income (loss)	$ 1,709,254	$ 2,302,440
Net realized gain (loss)	(1,420,993)	(8,480,561)
Change in net unrealized appreciation (depreciation)	13,108,712	6,340,956
Net increase (decrease) in net assets resulting from operations	13,396,973	162,835
Distributions to shareholders from:		
Net investment income:		
Class A	(7,067,244)	(9,803,744)
Class B	(20,366)	(26,284)
Total distributions	(7,087,610)	(9,830,028)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,668,827	4,349,614
Reinvestment of distributions	7,067,244	9,803,744
Payments for shares redeemed	(6,735,405)	(15,723,948)
Net increase (decrease) in net assets from Class A share transactions	4,000,666	(1,570,590)
Class B		
Proceeds from shares sold	4,571	16,738
Reinvestment of distributions	20,366	26,284
Payments for shares redeemed	(5,672)	(15,735)
Net increase (decrease) in net assets from Class B share transactions	19,265	27,287
Increase (decrease) in net assets	10,329,294	(11,210,496)
Net assets at beginning of period	94,180,621	105,391,117
Net assets at end of period (including undistributed net investment income of $2,034,968 and $7,413,324, respectively)	**$ 104,509,915**	**$ 94,180,621**

Other Information		
Class A		
Shares outstanding at beginning of period	14,512,126	14,702,326
Shares sold	534,047	690,002
Shares issued to shareholders in reinvestment of distributions	1,054,813	1,563,596
Shares redeemed	(992,192)	(2,443,798)
Net increase (decrease) in Class A shares	596,668	(190,200)
Shares outstanding at end of period	**15,108,794**	**14,512,126**
Class B		
Shares outstanding at beginning of period	42,251	37,903
Shares sold	670	2,658
Shares issued to shareholders in reinvestment of distributions	3,026	4,179
Shares redeemed	(824)	(2,489)
Net increase (decrease) in Class B shares	2,872	4,348
Shares outstanding at end of period	**45,123**	**42,251**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.47**	**$ 7.15**	**$ 7.86**	**$ 9.06**	**$ 7.96**	**$ 6.74**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.12	.16	.21	.31[b]	.14	.22
Net realized and unrealized gain (loss)	.81	(.13)	(.59)	(1.36)	1.41	1.16
Total from investment operations	.93	.03	(.38)	(1.05)	1.55	1.38
Less distributions from:						
Net investment income	(.50)	(.71)	(.33)	(.15)	(.45)	(.16)
Net asset value, end of period	**$ 6.90**	**$ 6.47**	**$ 7.15**	**$ 7.86**	**$ 9.06**	**$ 7.96**
Total Return (%)	14.65[c]**	.74[c]	(5.48)[c]	(11.76)[c]	20.23[c]	20.65
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	104	94	105	126	151	230
Ratio of expenses before expense reductions (%)[d]	1.10*	1.12	1.05	1.04	1.02	.98
Ratio of expenses after expense reductions (%)[d]	.84*	.84	.98	.98	1.01	.98
Ratio of net investment income (loss) (%)	3.47*	2.46	2.74	3.55[b]	1.64	2.99
Portfolio turnover rate (%)	42**	67	99	135	97	85

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 Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.48**	**$ 7.16**	**$ 7.87**	**$ 9.07**	**$ 7.96**	**$ 6.75**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.10	.14	.19	.28[b]	.13	.20
Net realized and unrealized gain (loss)	.82	(.13)	(.59)	(1.35)	1.41	1.15
Total from investment operations	.92	.01	(.40)	(1.07)	1.54	1.35
Less distributions from:						
Net investment income	(.48)	(.69)	(.31)	(.13)	(.43)	(.14)
Net asset value, end of period	**$ 6.92**	**$ 6.48**	**$ 7.16**	**$ 7.87**	**$ 9.07**	**$ 7.96**
Total Return (%)	14.48[c]**	.48[c]	(5.71)[c]	(11.98)[c]	20.01[c]	20.13
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.31	.27	.27	.26	.31	.28
Ratio of expenses before expense reductions (%)[d]	1.38*	1.40	1.33	1.31	1.30	1.26
Ratio of expenses after expense reductions (%)[d]	1.09*	1.10	1.23	1.23	1.27	1.26
Ratio of net investment income (loss) (%)	3.03*	2.18	2.47	3.26[b]	1.62	2.73
Portfolio turnover rate (%)	42**	67	99	135	97	85

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 Expense ratio does not reflect charges and fees 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.

* 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds including Deutsche Government & Agency Securities Portfolio managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, the Fund had no securities on loan.

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, 2016, the Fund had a net tax basis capital loss carryforward of approximately $98,822,000 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 $34,525,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($11,496,000) and long-term losses ($23,029,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $24,558,000 to $99,269,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from $0 to approximately $1,824,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2017 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)	$ 57,234

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

(a) Unrealized appreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2017 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 (b)	$ (2,244,331)

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

(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
Foreign Exchange Contracts (c)	$ 497,943

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

(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, 2017, the Fund has transactions subject to enforceable master netting agreements, which govern the terms of certain transactions, and reduce the counterparty risk associated with such transactions. Master netting agreements allow a Fund to close out and net total exposure to a counterparty in the event of a deterioration in the credit quality or contractual default with respect to all of the transactions with a counterparty. As defined by the master netting agreement, the Fund may have collateral agreements with certain counterparties to mitigate risk. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivatives assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by counterparty, including any collateral exposure, is included in the following tables:

Counterparty	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Received	Net Amount of Derivative Assets
Citigroup, Inc.	$ 57,234	$ —	$ —	$ 57,234

C. Purchases and Sales of Securities

During the six months ended June 30, 2017, purchases and sales of investment securities (excluding short-term investments) aggregated $40,238,217 and $41,133,714, 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, 2017, 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, 2017 through April 30, 2018, 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	.84%
Class B	1.09%

For the six months ended June 30, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 129,613
Class B	426
	$ 130,039

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, 2017, the Administration Fee was $49,315, of which $8,633 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2017
Class A	$ 310	$ 152
Class B	40	20
	$ 350	**$ 172**

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, 2017, the Distribution Service Fee aggregated $367, of which $64 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $6,184, of which $4,855 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $951.

E. Ownership of the Fund

At June 30, 2017, five participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 22%, 16%, 12%, 11% and 10%, respectively. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each 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, 2017.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,146.50	$1,144.80
Expenses Paid per $1,000*	$ 4.47	$ 5.80
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,020,63	$1,019.39
Expenses Paid per $1,000*	$ 4.21	$ 5.46

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche CROCI® International VIP	.84%	1.09%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche CROCI® International VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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, 2015. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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 noted that DIMA pays a licensing fee to an affiliate related to the Fund's use of the CROCI® strategy. 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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

VS1cint-3 (R-028378-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series II

Deutsche CROCI® U.S. VIP

(formerly Deutsche Large Cap Value VIP)

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16 Advisory Agreement Board Considerations and Fee Evaluation

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

The fund will be managed using the CROCI® Investment Process which is based on portfolio management's belief that, over time, stocks which display more favorable financial metrics (for example, the CROCI® Economic P/E Ratio) as generated by this process may outperform stocks which display less favorable metrics. This premise may not prove to be correct and prospective investors should evaluate this assumption prior to investing in the fund. 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

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NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

Performance Summary

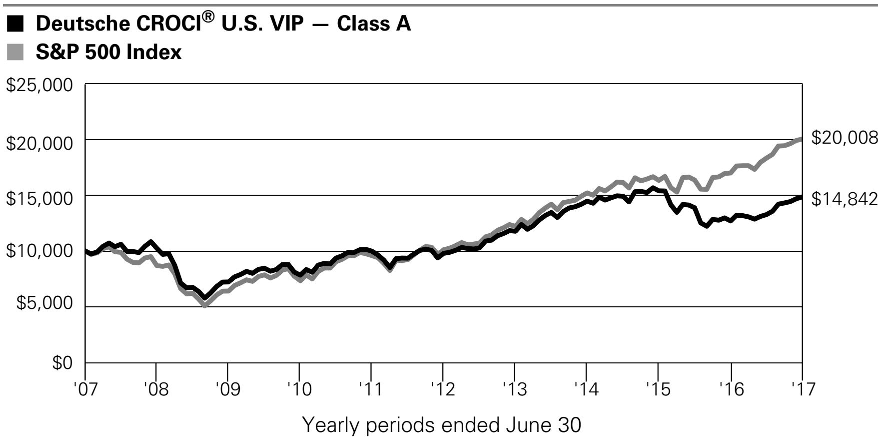
June 30, 2017 (Unaudited)

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, 2017 are 0.81% and 1.13% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment in Deutsche CROCI® U.S. VIP



The Standard & Poor's 500 Index (S&P 500) 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.

Prior to October 3, 2016, the Fund had a different investment management team that operated with a different investment strategy. Performance would have been different if the Fund's current strategy had been in effect.

Comparative Results

Deutsche CROCI® U.S. VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,195	$11,697	$10,264	$15,178	$14,842
	Average annual total return	11.95%	16.97%	0.87%	8.70%	4.03%
S&P 500® Index	Growth of $10,000	$10,934	$11,790	$13,170	$19,792	$20,008
	Average annual total return	9.34%	17.90%	9.61%	14.63%	7.18%

Deutsche CROCI® U.S. VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,180	$11,671	$10,180	$14,957	$14,391
	Average annual total return	11.80%	16.71%	0.60%	8.38%	3.71%
S&P 500® Index	Growth of $10,000	$10,934	$11,790	$13,170	$19,792	$20,008
	Average annual total return	9.34%	17.90%	9.61%	14.63%	7.18%

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)	**6/30/17**	**12/31/16**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
Consumer Discretionary	25%	15%
Information Technology	20%	12%
Industrials	15%	12%
Health Care	13%	17%
Consumer Staples	12%	17%
Financials	8%	—
Utilities	5%	21%
Materials	2%	3%
Telecommunication Services	—	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, Managing Director
John Moody, Vice President
Portfolio Managers

	Shares	Value ($)
Common Stocks 99.6%		
Consumer Discretionary 24.5%		
Distributors 2.4%		
Genuine Parts Co.	64,277	**5,962,335**
Household Durables 2.5%		
D.R. Horton, Inc.	175,516	**6,067,588**
Media 14.9%		
CBS Corp. "B"	96,126	6,130,916
Comcast Corp. "A"	151,974	5,914,828
Discovery Communications, Inc. "A"* (a)	228,296	5,896,886
Time Warner, Inc.	60,798	6,104,727
Twenty-First Century Fox, Inc. "A"	219,492	6,220,404
Walt Disney Co.	55,137	5,858,306
		36,126,067
Multiline Retail 2.3%		
Target Corp.	106,724	**5,580,598**
Textiles, Apparel & Luxury Goods 2.4%		
Michael Kors Holdings Ltd.*	162,033	**5,873,696**
Consumer Staples 12.3%		
Beverages 7.4%		
Coca-Cola Co.	135,449	6,074,888
Dr. Pepper Snapple Group, Inc.	65,343	5,953,401
PepsiCo, Inc.	52,182	6,026,499
		18,054,788
Food & Staples Retailing 2.4%		
Wal-Mart Stores, Inc.	75,629	**5,723,603**
Household Products 2.5%		
Procter & Gamble Co.	69,037	**6,016,574**
Financials 7.7%		
Banks 5.2%		
JPMorgan Chase & Co.	70,544	6,447,722
U.S. Bancorp.	116,816	6,065,087
		12,512,809
Consumer Finance 2.5%		
Capital One Financial Corp.	74,886	**6,187,081**
Health Care 13.0%		
Biotechnology 5.5%		
Amgen, Inc.	38,768	6,677,013
Gilead Sciences, Inc.	92,558	6,551,255
		13,228,268
Pharmaceuticals 7.5%		
Johnson & Johnson	46,644	6,170,535
Merck & Co., Inc.	92,695	5,940,822
Pfizer, Inc.	184,843	6,208,876
		18,320,233
Industrials 14.9%		
Aerospace & Defense 4.9%		
Raytheon Co.	36,936	5,964,425
United Technologies Corp.	48,945	5,976,674
		11,941,099
Industrial Conglomerates 7.4%		
3M Co.	29,987	6,242,993
General Electric Co.	211,569	5,714,479
Honeywell International, Inc.	45,206	6,025,508
		17,982,980
Machinery 2.6%		
Illinois Tool Works, Inc.	43,351	**6,210,031**
Information Technology 19.7%		
Communications Equipment 2.4%		
Cisco Systems, Inc.	188,534	**5,901,114**
IT Services 4.9%		
Amdocs Ltd.	92,608	5,969,512
International Business Machines Corp.	38,961	5,993,370
		11,962,882
Semiconductors & Semiconductor Equipment 4.6%		
Intel Corp.	167,132	5,639,034
Lam Research Corp.	39,005	5,516,477
		11,155,511
Software 5.5%		
CA, Inc.	188,265	6,489,495
Oracle Corp.	133,729	6,705,172
		13,194,667
Technology Hardware, Storage & Peripherals 2.3%		
Apple, Inc.	38,787	**5,586,104**
Materials 2.6%		
Chemicals		
LyondellBasell Industries NV "A"	74,214	**6,262,919**
Utilities 4.9%		
Electric Utilities 2.5%		
Edison International	75,755	**5,923,283**
Multi-Utilities 2.4%		
DTE Energy Co.	55,963	**5,920,326**
Total Common Stocks (Cost $228,757,957)		**241,694,556**
Securities Lending Collateral 2.5%		
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (b) (c) (Cost $6,104,350)	6,104,350	**6,104,350**
Cash Equivalents 0.5%		
Deutsche Central Cash Management Government Fund, 1.03% (b) (Cost $1,251,015)	1,251,015	**1,251,015**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $236,113,322)†	102.6	**249,049,921**
Other Assets and Liabilities, Net	(2.6)	**(6,367,535)**
Net Assets	100.0	**242,682,386**

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

* Non-income producing security.

† The cost for federal income tax purposes was $236,202,223. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $12,847,698. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $17,283,613 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,435,915.

(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, 2017 amounted to $5,894,406, which is 2.4% 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.

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, 2017 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)	$241,694,556	$ —	$ —	$241,694,556
Short-Term Investment (d)	7,355,365	—	—	7,355,365
Total	**$249,049,921**	**$ —**	**$ —**	**$249,049,921**

There have been no transfers between fair value measurement levels during the period ended June 30, 2017.

(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, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $228,757,957) — including $5,894,406 of securities loaned	$	241,694,556
Investment in Deutsche Government & Agency Securities Portfolio (cost $6,104,350)*		6,104,350
Investment in Deutsche Central Cash Management Government Fund (cost $1,251,015)		1,251,015
Total investments in securities, at value (cost $236,113,322)		249,049,921
Receivable for Fund shares sold		1,377
Dividends receivable		466,488
Interest receivable		1,490
Due from Advisor		62,466
Other assets		1,263
Total assets		249,583,005
Liabilities		
Payable upon return of securities loaned		6,104,350
Payable for Fund shares redeemed		606,293
Accrued management fee		107,968
Accrued Trustees' fees		1,327
Other accrued expenses and payables		80,681
Total liabilities		6,900,619
Net assets, at value	**$**	**242,682,386**
Net Assets Consist of		
Undistributed net investment income		2,207,861
Net unrealized appreciation (depreciation) on investments		12,936,599
Accumulated net realized gain (loss)		(9,261,837)
Paid-in capital		236,799,763
Net assets, at value	**$**	**242,682,386**
Class A		
Net Asset Value, offering and redemption price per share ($239,035,903 ÷ 15,762,742 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**15.16**
Class B		
Net Asset Value, offering and redemption price per share ($3,646,483 ÷ 239,608 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**15.22**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income		
Income:		
Dividends	$	2,885,281
Income distributions — Deutsche Central Cash Management Government Fund		4,969
Securities lending income, net of borrower rebates		661
Total income		2,890,911
Expenses:		
Management fee		772,419
Administration fee		118,834
Services to shareholders		2,433
Record keeping fees (Class B)		1,286
Distribution service fees (Class B)		4,398
Custodian fee		4,533
Professional fees		39,214
Reports to shareholders		16,744
Trustees' fees and expenses		7,421
Other		7,973
Total expenses before expense reductions		975,255
Expense reductions		(114,199)
Total expenses after expense reductions		861,056
Net investment income	**$**	**2,029,855**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		13,625,898
Payments by affiliates (see Note F)		62,466
		13,688,364
Change in net unrealized appreciation (depreciation) on investments		11,220,435
Net gain (loss)		**24,908,799**
Net increase (decrease) in net assets resulting from operations		**26,938,654**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income	$ 2,029,855	$ 4,001,244
Net realized gain (loss)	13,688,364	(20,531,633)
Change in net unrealized appreciation (depreciation)	11,220,435	1,399,099
Net increase (decrease) in net assets resulting from operations	26,938,654	(15,131,290)
Distributions to shareholders from:		
Net investment income:		
Class A	(3,625,439)	(2,434,486)
Class B	(42,548)	(25,893)
Net realized gains:		
Class A	—	(12,035,759)
Class B	—	(185,570)
Total distributions	(3,667,987)	(14,681,708)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,218,573	5,510,987
Reinvestment of distributions	3,625,439	14,470,245
Payments for shares redeemed	(17,052,008)	(56,264,127)
Net increase (decrease) in net assets from Class A share transactions	(11,207,996)	(36,282,895)
Class B		
Proceeds from shares sold	84,526	525,700
Reinvestment of distributions	42,548	211,463
Payments for shares redeemed	(344,183)	(1,258,566)
Net increase (decrease) in net assets from Class B share transactions	(217,109)	(521,403)
Increase (decrease) in net assets	11,845,562	(66,617,296)
Net assets at beginning of period	230,836,824	297,454,120
Net assets at end of period (including undistributed net investment income of $2,207,861 and $3,845,993, respectively)	**$ 242,682,386**	**$ 230,836,824**

Other Information		
Class A		
Shares outstanding at beginning of period	16,529,732	19,157,658
Shares sold	152,519	405,203
Shares issued to shareholders in reinvestment of distributions	245,460	1,079,869
Shares redeemed	(1,164,969)	(4,112,998)
Net increase (decrease) in Class A shares	(766,990)	(2,627,926)
Shares outstanding at end of period	**15,762,742**	**16,529,732**
Class B		
Shares outstanding at beginning of period	254,820	291,996
Shares sold	5,693	38,734
Shares issued to shareholders in reinvestment of distributions	2,869	15,722
Shares redeemed	(23,774)	(91,632)
Net increase (decrease) in Class B shares	(15,212)	(37,176)
Shares outstanding at end of period	**239,608**	**254,820**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$13.75**	**$15.29**	**$17.38**	**$15.97**	**$12.45**	**$11.56**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.12	.23	.11	.24	.26	.25
Net realized and unrealized gain (loss)	1.52	(.93)	(1.20)	1.45	3.54	.87
Total from investment operations	1.64	(.70)	(1.09)	1.69	3.80	1.12
Less distributions from:						
Net investment income	(.23)	(.14)	(.25)	(.28)	(.28)	(.23)
Net realized gains on investment transactions	—	(.70)	(.75)	—	—	—
Total distributions	(.23)	(.84)	(1.00)	(.28)	(.28)	(.23)
Net asset value, end of period	**$15.16**	**$13.75**	**$15.29**	**$17.38**	**$15.97**	**$12.45**
Total Return (%)[b]	11.95[c]**	(4.39)	(6.87)	10.72	30.89	9.79
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	239	227	293	430	432	377
Ratio of expenses before expense reductions (%)[d]	.82*	.81	.78	.78	.78	.78
Ratio of expenses after expense reductions (%)[d]	.72*	.74	.73	.73	.74	.77
Ratio of net investment income (loss) (%)	1.71*	1.66	.65	1.43	1.82	2.04
Portfolio turnover rate (%)	53**	293	121	133	54	63

a Based on average shares outstanding during the period.

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

c The Fund's total return includes a reimbursement by the Adviser for commission costs incurred in connection with purchases and sales of portfolio assets due to the change in investment strategy, which otherwise would have reduced total return by 0.03%.

d Expense ratio does not reflect charges and fees 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.

* Annualized ** Not annualized

Class B	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$13.78**	**$15.31**	**$17.40**	**$15.99**	**$12.46**	**$11.57**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.10	.19	.06	.18	.22	.21
Net realized and unrealized gain (loss)	1.52	(.92)	(1.21)	1.46	3.55	.88
Total from investment operations	1.62	(.73)	(1.15)	1.64	3.77	1.09
Less distributions from:						
Net investment income	(.18)	(.10)	(.19)	(.23)	(.24)	(.20)
Net realized gains on investment transactions	—	(.70)	(.75)	—	—	—
Total distributions	(.18)	(.80)	(.94)	(.23)	(.24)	(.20)
Net asset value, end of period	**$15.22**	**$13.78**	**$15.31**	**$17.40**	**$15.99**	**$12.46**
Total Return (%)[b]	11.80[c]**	(4.62)	(7.16)	10.36	30.54	9.44
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	4	4	4	5	5	4
Ratio of expenses before expense reductions (%)[d]	1.15*	1.13	1.10	1.09	1.09	1.09
Ratio of expenses after expense reductions (%)[d]	1.03*	1.05	1.04	1.04	1.05	1.08
Ratio of net investment income (loss) (%)	1.40*	1.37	.35	1.10	1.52	1.73
Portfolio turnover rate (%)	53**	293	121	133	54	63

a Based on average shares outstanding during the period.

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

c The Fund's total return includes a reimbursement by the Adviser for commission costs incurred in connection with purchases and sales of portfolio assets due to the change in investment strategy, which otherwise would have reduced total return by 0.03%.

d Expense ratio does not reflect charges and fees 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.

* Annualized ** Not annualized

A. Organization and Significant Accounting Policies

Deutsche CROCI® U.S. VIP (formerly 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, 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. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016, the Fund had a net tax basis capital loss carryforward of approximately $22,862,000, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($20,822,000) and long-term losses ($2,040,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, 2017, purchases and sales of investment transactions (excluding short-term investments) aggregated $126,574,448 and $136,836,183, respectively.

C. Related Parties

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

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, 2017, 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, 2017 through April 30, 2018, 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	.72%
Class B	1.03%

For the six months ended June 30, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 112,176
Class B	2,023
	$ 114,199

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, 2017, the Administration Fee was $118,834, of which $20,014 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2017
Class A	$ 195	$ 97
Class B	111	50
	$ 306	**$ 147**

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, 2017, the Distribution Service Fee aggregated $4,398, of which $744 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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,973, of which $4,412 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $50.

D. Ownership of the Fund

At June 30, 2017, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 51%, 27% and 16%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 63% and 14%.

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, 2017.

F. Payment by Affiliate

During the six months ended June 30, 2017, the Advisor agreed to reimburse the Fund $62,466 for commission costs incurred in connection with purchases and sales of portfolio assets due to the change in investment strategy. The amount reimbursed was 0.03% of the Fund's average net assets.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,119.50	$1,118.00
Expenses Paid per $1,000*	$ 3.78	$ 5.41
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,021.22	$1,019.69
Expenses Paid per $1,000*	$ 3.61	$ 5.16

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche CROCI® U.S. VIP	.72%	1.03%

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 most recent 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 (hereinafter referred to as the “Board” or “Trustees”) approved the renewal of Deutsche Large Cap Value VIP’s (now known as the Deutsche CROCI® U.S. VIP) (the “Fund”) investment management agreement (the “Agreement”) with Deutsche Investment Management Americas Inc. (“DIMA”) in September 2016.

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

— During the entire process, all of the Fund’s Trustees were independent of DIMA and its affiliates (the “Independent Trustees”).

— The Board 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 extensive 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 Management (“Deutsche AM”) division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM’s investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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, 2015. 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 considered that on or about October 3, 2016, the Fund would change its investment strategy and portfolio managers. 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 Broadridge Financial Solutions, Inc. ("Broadridge") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were equal to the median of the applicable Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Deutsche
Asset Management

VS2CUS-3 (R-028386-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Investments VIT Funds

Deutsche Equity 500 Index VIP

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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. 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

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

Performance Summary

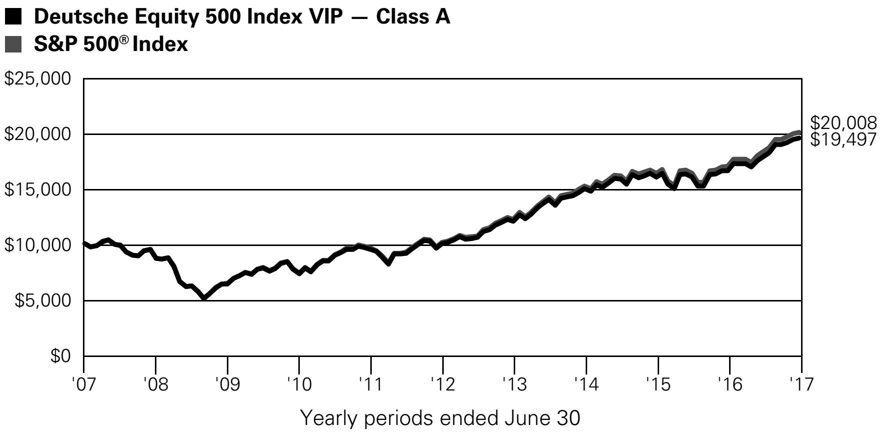
June 30, 2017 (Unaudited)

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, 2017 are 0.34%, 0.69% 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.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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, 2017)

Deutsche Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,921	$11,756	$13,063	$19,520	$19,497
	Average annual total return	9.21%	17.56%	9.32%	14.31%	6.90%
S&P 500 Index	Growth of $10,000	$10,934	$11,790	$13,170	$19,792	$20,008
	Average annual total return	9.34%	17.90%	9.61%	14.63%	7.18%
Deutsche Equity 500 Index VIP		**6-Month‡**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$10,900	$11,720	$12,956	$19,268	$19,005
	Average annual total return	9.00%	17.20%	9.02%	14.02%	6.63%
S&P 500 Index	Growth of $10,000	$10,934	$11,790	$13,170	$19,792	$20,008
	Average annual total return	9.34%	17.90%	9.61%	14.63%	7.18%
Deutsche Equity 500 Index VIP		**6-Month‡**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B2	Growth of $10,000	$10,900	$11,707	$12,922	$19,162	$18,781
	Average annual total return	9.00%	17.07%	8.92%	13.89%	6.51%
S&P 500 Index	Growth of $10,000	$10,934	$11,790	$13,170	$19,792	$20,008
	Average annual total return	9.34%	17.90%	9.61%	14.63%	7.18%

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)	**6/30/17**	**12/31/16**
Common Stocks	99%	100%
Cash Equivalents	1%	0%
Government & Agency Obligations	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/17**	**12/31/16**
Information Technology	22%	21%
Financials	15%	15%
Health Care	15%	14%
Consumer Discretionary	12%	12%
Industrials	10%	10%
Consumer Staples	9%	9%
Energy	6%	7%
Utilities	3%	3%
Real Estate	3%	3%
Materials	3%	3%
Telecommunication Services	2%	3%
	100%	100%

Ten Largest Equity Holdings (19.9% of Net Assets)		
1	**Apple, Inc.** Designs, manufactures and markets personal computers and related computing and mobile communication devices	**3.6%**
2	**Alphabet, Inc.** Holding company with subsidiaries that provide web-based search, advertisements, maps, software applications, mobile operating systems and a variety of other products	**2.6%**
3	**Microsoft Corp.** Develops, manufactures, licenses, sells and supports software products	**2.6%**
4	**Amazon.com, Inc.** Online retailer that offers a wide range of products, including books, music, videotapes, computers, electronics, home and garden, and numerous products.	**1.8%**
5	**Facebook, Inc.** Operates a social networking website	**1.7%**
6	**Johnson & Johnson** Provider of health care products	**1.7%**
7	**Exxon Mobil Corp.** Explorer and producer of oil and gas	**1.6%**
8	**JPMorgan Chase & Co.** Provider of global financial services	**1.6%**
9	**Berkshire Hathaway, Inc.** Holding company of insurance business and a variety of other businesses	**1.5%**
10	**Wells Fargo & Co.** A diversified financial services company	**1.2%**

Portfolio holdings and characteristics are subject to change.
For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's portfolio holdings are also posted on deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Manager

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

	Shares	Value ($)
Common Stocks 99.1%		
Consumer Discretionary 12.2%		
Auto Components 0.2%		
BorgWarner, Inc.	5,470	231,709
Delphi Automotive PLC	7,404	648,961
Goodyear Tire & Rubber Co.	7,077	247,412
		1,128,082
Automobiles 0.5%		
Ford Motor Co.	108,054	1,209,124
General Motors Co.	38,116	1,331,392
Harley-Davidson, Inc.	4,883	263,780
		2,804,296
Distributors 0.1%		
Genuine Parts Co.	4,104	380,687
LKQ Corp.*	8,673	285,775
		666,462
Diversified Consumer Services 0.0%		
H&R Block, Inc.	5,769	**178,320**
Hotels, Restaurants & Leisure 1.8%		
Carnival Corp.	11,588	759,825
Chipotle Mexican Grill, Inc.*	794	330,383
Darden Restaurants, Inc.	3,466	313,465
Hilton Worldwide Holdings, Inc.	5,676	351,061
Marriott International, Inc. "A"	8,606	863,268
McDonald's Corp.	22,587	3,459,425
Royal Caribbean Cruises Ltd.	4,646	507,482
Starbucks Corp.	40,138	2,340,447
Wyndham Worldwide Corp.	2,943	295,507
Wynn Resorts Ltd.	2,245	301,099
Yum! Brands, Inc.	9,139	674,093
		10,196,055
Household Durables 0.5%		
D.R. Horton, Inc.	9,564	330,627
Garmin Ltd.	3,278	167,276
Leggett & Platt, Inc.	3,624	190,369
Lennar Corp. "A"	5,669	302,271
Mohawk Industries, Inc.*	1,743	421,266
Newell Brands, Inc.	13,375	717,168
PulteGroup, Inc.	7,949	194,989
Whirlpool Corp.	2,050	392,821
		2,716,787
Internet & Direct Marketing Retail 2.7%		
Amazon.com, Inc.*	10,999	10,647,032
Expedia, Inc.	3,347	498,536
Netflix, Inc.*	11,937	1,783,507
The Priceline Group, Inc.*	1,364	2,551,389
TripAdvisor, Inc.*	3,032	115,822
		15,596,286
Leisure Products 0.1%		
Hasbro, Inc.	3,067	342,001
Mattel, Inc.	9,286	199,928
		541,929
Media 3.0%		
CBS Corp. "B"	10,110	644,816
Charter Communications, Inc. "A"*	5,966	2,009,647
Comcast Corp. "A"	131,218	5,107,004
Discovery Communications, Inc. "A"*	4,359	112,593
Discovery Communications, Inc. "C"*	5,875	148,109
DISH Network Corp. "A"*	6,375	400,095
Interpublic Group of Companies, Inc.	10,803	265,754
News Corp. "A"	10,954	150,070
News Corp. "B"	3,545	50,162
Omnicom Group, Inc.	6,498	538,684
Scripps Networks Interactive, Inc. "A"	2,677	182,866
Time Warner, Inc.	21,468	2,155,602
Twenty-First Century Fox, Inc. "A"	29,174	826,791
Twenty-First Century Fox, Inc. "B"	13,550	377,638
Viacom, Inc. "B"	9,838	330,262
Walt Disney Co.	40,330	4,285,062
		17,585,155
Multiline Retail 0.4%		
Dollar General Corp.	6,944	500,593
Dollar Tree, Inc.*	6,487	453,571
Kohl's Corp.	4,834	186,931
Macy's, Inc.	8,351	194,077
Nordstrom, Inc. (a)	3,072	146,934
Target Corp.	15,212	795,435
		2,277,541
Specialty Retail 2.2%		
Advance Auto Parts, Inc.	2,054	239,476
AutoNation, Inc.*	1,903	80,231
AutoZone, Inc.*	777	443,248
Bed Bath & Beyond, Inc.	3,971	120,718
Best Buy Co., Inc.	7,350	421,376
CarMax, Inc.* (a)	5,224	329,426
Foot Locker, Inc.	3,626	178,689
Home Depot, Inc.	33,131	5,082,295
L Brands, Inc.	6,680	359,985
Lowe's Companies, Inc.	23,778	1,843,508
O'Reilly Automotive, Inc.*	2,538	555,162
Ross Stores, Inc.	10,905	629,546
Signet Jewelers Ltd. (a)	1,986	125,595
Staples, Inc.	17,975	181,008
The Gap, Inc.	6,181	135,920
Tiffany & Co.	3,006	282,173
TJX Companies, Inc.	17,813	1,285,564
Tractor Supply Co.	3,481	188,705
Ulta Salon, Cosmetics & Fragrance, Inc.*	1,621	465,778
		12,948,403
Textiles, Apparel & Luxury Goods 0.7%		
Coach, Inc.	7,785	368,542
Hanesbrands, Inc.	9,995	231,484
Michael Kors Holdings Ltd.*	4,383	158,884

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

	Shares	Value ($)
NIKE, Inc. "B"	36,746	2,168,014
PVH Corp.	2,202	252,129
Ralph Lauren Corp.	1,542	113,800
Under Armour, Inc. "A"* (a)	5,253	114,305
Under Armour, Inc. "C"*	5,290	106,646
VF Corp.	8,818	507,917
		4,021,721
Consumer Staples 9.0%		
Beverages 2.1%		
Brown-Forman Corp. "B"	4,994	242,709
Coca-Cola Co.	106,818	4,790,787
Constellation Brands, Inc. "A"	4,728	915,956
Dr. Pepper Snapple Group, Inc.	5,049	460,014
Molson Coors Brewing Co. "B"	5,065	437,312
Monster Beverage Corp.*	11,096	551,249
PepsiCo, Inc.	39,604	4,573,866
		11,971,893
Food & Staples Retailing 1.9%		
Costco Wholesale Corp.	12,176	1,947,308
CVS Health Corp.	28,254	2,273,317
Kroger Co.	25,247	588,760
Sysco Corp.	13,727	690,880
Wal-Mart Stores, Inc.	40,961	3,099,928
Walgreens Boots Alliance, Inc.	23,646	1,851,718
Whole Foods Market, Inc.	8,742	368,126
		10,820,037
Food Products 1.3%		
Archer-Daniels-Midland Co.	15,839	655,418
Campbell Soup Co.	5,368	279,941
Conagra Brands, Inc.	11,064	395,649
General Mills, Inc.	15,896	880,639
Hormel Foods Corp.	7,494	255,620
Kellogg Co.	6,946	482,469
Kraft Heinz Co.	16,538	1,416,314
McCormick & Co., Inc.	3,121	304,329
Mondelez International, Inc. "A"	42,079	1,817,392
The Hershey Co.	3,927	421,642
The JM Smucker Co.	3,216	380,549
Tyson Foods, Inc. "A"	7,959	498,472
		7,788,434
Household Products 1.7%		
Church & Dwight Co., Inc.	6,999	363,108
Clorox Co.	3,580	476,999
Colgate-Palmolive Co.	24,506	1,816,630
Kimberly-Clark Corp.	9,783	1,263,083
Procter & Gamble Co.	70,906	6,179,458
		10,099,278
Personal Products 0.2%		
Coty, Inc. "A"	12,811	240,334
Estee Lauder Companies, Inc. "A"	6,241	599,011
		839,345
Tobacco 1.8%		
Altria Group, Inc.	53,627	3,993,603
Philip Morris International, Inc.	43,033	5,054,226
Reynolds American, Inc.	22,934	1,491,627
		10,539,456

	Shares	Value ($)
Energy 6.0%		
Energy Equipment & Services 0.9%		
Baker Hughes, Inc.	11,791	642,727
Halliburton Co.	24,023	1,026,022
Helmerich & Payne, Inc.	3,071	166,878
National Oilwell Varco, Inc.	10,494	345,672
Schlumberger Ltd.	38,472	2,532,997
TechnipFMC PLC*	12,893	350,690
Transocean Ltd.*	11,073	91,131
		5,156,117
Oil, Gas & Consumable Fuels 5.1%		
Anadarko Petroleum Corp.	15,519	703,631
Apache Corp.	10,467	501,683
Cabot Oil & Gas Corp.	12,752	319,820
Chesapeake Energy Corp.* (a)	21,271	105,717
Chevron Corp.	52,499	5,477,221
Cimarex Energy Co.	2,597	244,144
Concho Resources, Inc.*	4,116	500,217
ConocoPhillips	34,279	1,506,905
Devon Energy Corp.	14,438	461,583
EOG Resources, Inc.	16,010	1,449,225
EQT Corp.	4,745	278,010
Exxon Mobil Corp.	117,578	9,492,072
Hess Corp.	7,500	329,025
Kinder Morgan, Inc.	53,263	1,020,519
Marathon Oil Corp.	23,614	279,826
Marathon Petroleum Corp.	14,403	753,709
Murphy Oil Corp.	4,445	113,925
Newfield Exploration Co.*	5,448	155,050
Noble Energy, Inc.	12,621	357,174
Occidental Petroleum Corp.	21,203	1,269,424
ONEOK, Inc.	10,531	549,297
Phillips 66	12,241	1,012,208
Pioneer Natural Resources Co.	4,713	752,101
Range Resources Corp.	5,374	124,516
Tesoro Corp.	4,188	391,997
Valero Energy Corp.	12,331	831,849
Williams Companies, Inc.	22,921	694,048
		29,674,896
Financials 14.4%		
Banks 6.4%		
Bank of America Corp.	275,921	6,693,844
BB&T Corp.	22,430	1,018,546
Citigroup, Inc.	76,328	5,104,817
Citizens Financial Group, Inc.	14,095	502,910
Comerica, Inc.	4,967	363,783
Fifth Third Bancorp.	20,807	540,150
Huntington Bancshares, Inc.	29,990	405,465
JPMorgan Chase & Co.	98,506	9,003,448
KeyCorp	30,354	568,834
M&T Bank Corp.	4,278	692,822
People's United Financial, Inc.	9,693	171,178
PNC Financial Services Group, Inc.	13,388	1,671,760
Regions Financial Corp.	32,903	481,700
SunTrust Banks, Inc.	13,403	760,218
U.S. Bancorp.	43,923	2,280,482
Wells Fargo & Co.	124,645	6,906,579
Zions Bancorp.	5,623	246,906
		37,413,442

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

	Shares	Value ($)
Capital Markets 2.9%		
Affiliated Managers Group, Inc.	1,538	255,093
Ameriprise Financial, Inc.	4,237	539,328
Bank of New York Mellon Corp.	28,764	1,467,539
BlackRock, Inc.	3,347	1,413,806
CBOE Holdings, Inc.	2,569	234,807
Charles Schwab Corp.	33,692	1,447,408
CME Group, Inc.	9,421	1,179,886
E*TRADE Financial Corp.*	7,674	291,842
Franklin Resources, Inc.	9,475	424,385
Intercontinental Exchange, Inc.	16,349	1,077,726
Invesco Ltd.	11,323	398,456
Moody's Corp.	4,576	556,808
Morgan Stanley	39,483	1,759,363
Nasdaq, Inc.	3,157	225,694
Northern Trust Corp.	6,217	604,355
Raymond James Financial, Inc.	3,618	290,236
S&P Global, Inc.	7,171	1,046,894
State Street Corp.	9,799	879,264
T. Rowe Price Group, Inc.	6,673	495,203
The Goldman Sachs Group, Inc.	10,149	2,252,063
		16,840,156
Consumer Finance 0.7%		
American Express Co.	20,828	1,754,551
Capital One Financial Corp.	13,320	1,100,498
Discover Financial Services	10,506	653,368
Navient Corp.	7,961	132,551
Synchrony Financial	21,358	636,895
		4,277,863
Diversified Financial Services 1.6%		
Berkshire Hathaway, Inc. "B"*	52,656	8,918,347
Leucadia National Corp.	8,912	233,138
		9,151,485
Insurance 2.8%		
Aflac, Inc.	10,988	853,548
Allstate Corp.	10,121	895,101
American International Group, Inc.	24,387	1,524,675
Aon PLC	7,288	968,940
Arthur J. Gallagher & Co.	5,013	286,994
Assurant, Inc.	1,563	162,067
Chubb Ltd.	12,920	1,878,310
Cincinnati Financial Corp.	4,230	306,463
Everest Re Group Ltd.	1,137	289,469
Hartford Financial Services Group, Inc.	10,067	529,222
Lincoln National Corp.	6,207	419,469
Loews Corp.	7,691	360,016
Marsh & McLennan Companies, Inc.	14,296	1,114,516
MetLife, Inc.	29,926	1,644,134
Principal Financial Group, Inc.	7,403	474,310
Progressive Corp.	16,120	710,731
Prudential Financial, Inc.	11,920	1,289,029
The Travelers Companies, Inc.	7,756	981,367
Torchmark Corp.	2,960	226,440
Unum Group	6,266	292,184
Willis Towers Watson PLC	3,530	513,474
XL Group Ltd.	7,255	317,769
		16,038,228

Health Care 14.4%

	Shares	Value ($)
Biotechnology 2.9%		
AbbVie, Inc.	44,057	3,194,573
Alexion Pharmaceuticals, Inc.*	6,208	755,327
Amgen, Inc.	20,426	3,517,970
Biogen, Inc.*	5,925	1,607,808
Celgene Corp.*	21,681	2,815,712
Gilead Sciences, Inc.	36,254	2,566,058
Incyte Corp.*	4,691	590,644
Regeneron Pharmaceuticals, Inc.*	2,110	1,036,305
Vertex Pharmaceuticals, Inc.*	6,858	883,791
		16,968,188
Health Care Equipment & Supplies 2.9%		
Abbott Laboratories	48,186	2,342,321
Align Technology, Inc.*	2,094	314,351
Baxter International, Inc.	13,513	818,077
Becton, Dickinson & Co.	6,314	1,231,925
Boston Scientific Corp.*	37,868	1,049,701
C.R. Bard, Inc.	2,027	640,755
Danaher Corp.	16,932	1,428,891
DENTSPLY SIRONA, Inc.	6,270	406,547
Edwards Lifesciences Corp.*	5,844	690,995
Hologic, Inc.*	7,673	348,201
IDEXX Laboratories, Inc.*	2,475	399,515
Intuitive Surgical, Inc.*	1,020	954,077
Medtronic PLC	37,971	3,369,926
Stryker Corp.	8,591	1,192,259
The Cooper Companies, Inc.	1,334	319,386
Varian Medical Systems, Inc.*	2,554	263,547
Zimmer Biomet Holdings, Inc.	5,540	711,336
		16,481,810
Health Care Providers & Services 2.8%		
Aetna, Inc.	9,199	1,396,684
AmerisourceBergen Corp.	4,640	438,619
Anthem, Inc.	7,341	1,381,062
Cardinal Health, Inc.	8,736	680,709
Centene Corp.*	4,734	378,152
Cigna Corp.	7,135	1,194,328
DaVita, Inc.*	4,326	280,152
Envision Healthcare Corp.*	3,349	209,882
Express Scripts Holding Co.*	16,461	1,050,870
HCA Healthcare, Inc.*	7,959	694,025
Henry Schein, Inc.*	2,170	397,153
Humana, Inc.	4,005	963,683
Laboratory Corp. of America Holdings*	2,858	440,532
McKesson Corp.	5,813	956,471
Patterson Companies, Inc.	2,178	102,257
Quest Diagnostics, Inc.	3,749	416,739
UnitedHealth Group, Inc.	26,752	4,960,356
Universal Health Services, Inc. "B"	2,449	298,974
		16,240,648
Health Care Technology 0.1%		
Cerner Corp.*	8,097	**538,208**
Life Sciences Tools & Services 0.7%		
Agilent Technologies, Inc.	9,019	534,917
Illumina, Inc.*	4,031	699,459
Mettler-Toledo International, Inc.*	711	418,452
PerkinElmer, Inc.	3,098	211,098

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

	Shares	Value ($)
Thermo Fisher Scientific, Inc.	10,841	1,891,429
Waters Corp.*	2,205	405,367
		4,160,722
Pharmaceuticals 5.0%		
Allergan PLC	9,297	2,260,008
Bristol-Myers Squibb Co.	45,678	2,545,178
Eli Lilly & Co.	26,931	2,216,421
Johnson & Johnson	74,685	9,880,079
Mallinckrodt PLC*	2,815	126,140
Merck & Co., Inc.	75,831	4,860,009
Mylan NV*	12,776	495,964
Perrigo Co. PLC	4,006	302,533
Pfizer, Inc.	165,491	5,558,843
Zoetis, Inc.	13,653	851,674
		29,096,849
Industrials 10.2%		
Aerospace & Defense 2.3%		
Arconic, Inc.	12,117	274,450
Boeing Co.	15,572	3,079,363
General Dynamics Corp.	7,835	1,552,113
L3 Technologies, Inc.	2,170	362,564
Lockheed Martin Corp.	6,882	1,910,512
Northrop Grumman Corp.	4,843	1,243,247
Raytheon Co.	8,052	1,300,237
Rockwell Collins, Inc.	4,500	472,860
Textron, Inc.	7,351	346,232
TransDigm Group, Inc.	1,349	362,706
United Technologies Corp.	20,685	2,525,845
		13,430,129
Air Freight & Logistics 0.7%		
C.H. Robinson Worldwide, Inc.	3,864	265,379
Expeditors International of Washington, Inc.	5,006	282,739
FedEx Corp.	6,810	1,480,017
United Parcel Service, Inc. "B"	19,123	2,114,813
		4,142,948
Airlines 0.6%		
Alaska Air Group, Inc.	3,400	305,184
American Airlines Group, Inc.	13,651	686,918
Delta Air Lines, Inc.	20,525	1,103,014
Southwest Airlines Co.	16,751	1,040,907
United Continental Holdings, Inc.*	7,767	584,467
		3,720,490
Building Products 0.3%		
Allegion PLC	2,655	215,374
Fortune Brands Home & Security, Inc.	4,179	272,638
Johnson Controls International PLC	26,026	1,128,487
Masco Corp.	8,981	343,164
		1,959,663
Commercial Services & Supplies 0.3%		
Cintas Corp.	2,395	301,866
Republic Services, Inc.	6,333	403,602
Stericycle, Inc.*	2,322	177,215
Waste Management, Inc.	11,213	822,474
		1,705,157
Construction & Engineering 0.1%		
Fluor Corp.	3,925	179,687
Jacobs Engineering Group, Inc.	3,349	182,152
Quanta Services, Inc.*	4,221	138,955
		500,794
Electrical Equipment 0.6%		
Acuity Brands, Inc.	1,209	245,766
AMETEK, Inc.	6,390	387,042
Eaton Corp. PLC	12,320	958,866
Emerson Electric Co.	17,891	1,066,661
Rockwell Automation, Inc.	3,538	573,014
		3,231,349
Industrial Conglomerates 2.3%		
3M Co.	16,587	3,453,248
General Electric Co.	241,450	6,521,564
Honeywell International, Inc.	21,100	2,812,419
Roper Technologies, Inc.	2,849	659,629
		13,446,860
Machinery 1.6%		
Caterpillar, Inc.	16,379	1,760,087
Cummins, Inc.	4,260	691,057
Deere & Co.	8,128	1,004,539
Dover Corp.	4,290	344,144
Flowserve Corp.	3,711	172,302
Fortive Corp.	8,352	529,099
Illinois Tool Works, Inc.	8,660	1,240,545
Ingersoll-Rand PLC	7,128	651,428
PACCAR, Inc.	9,738	643,098
Parker-Hannifin Corp.	3,683	588,617
Pentair PLC	4,596	305,818
Snap-on, Inc.	1,622	256,276
Stanley Black & Decker, Inc.	4,224	594,444
Xylem, Inc.	5,082	281,695
		9,063,149
Professional Services 0.3%		
Equifax, Inc.	3,324	456,784
IHS Markit Ltd.*	8,801	387,596
Nielsen Holdings PLC	9,315	360,118
Robert Half International, Inc.	3,482	166,892
Verisk Analytics, Inc.*	4,216	355,704
		1,727,094
Road & Rail 0.9%		
CSX Corp.	25,485	1,390,461
J.B. Hunt Transport Services, Inc.	2,426	221,688
Kansas City Southern	2,904	303,904
Norfolk Southern Corp.	8,069	981,997
Union Pacific Corp.	22,382	2,437,624
		5,335,674
Trading Companies & Distributors 0.2%		
Fastenal Co.	8,122	353,551
United Rentals, Inc.*	2,295	258,669
W.W. Grainger, Inc.	1,506	271,878
		884,098
Information Technology 22.0%		
Communications Equipment 1.0%		
Cisco Systems, Inc.	138,798	4,344,378
F5 Networks, Inc.*	1,823	231,630

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

	Shares	Value ($)
Harris Corp.	3,334	363,673
Juniper Networks, Inc.	10,582	295,026
Motorola Solutions, Inc.	4,497	390,070
		5,624,777
Electronic Equipment, Instruments & Components 0.4%		
Amphenol Corp. "A"	8,530	629,685
Corning, Inc.	25,341	761,497
FLIR Systems, Inc.	3,838	133,025
TE Connectivity Ltd.	9,838	774,054
		2,298,261
Internet Software & Services 4.5%		
Akamai Technologies, Inc.*	4,873	242,724
Alphabet, Inc. "A"*	8,250	7,669,860
Alphabet, Inc. "C"*	8,271	7,516,106
eBay, Inc.*	28,034	978,947
Facebook, Inc. "A"*	65,524	9,892,813
VeriSign, Inc.*	2,486	231,099
		26,531,549
IT Services 3.8%		
Accenture PLC "A"	17,171	2,123,709
Alliance Data Systems Corp.	1,520	390,169
Automatic Data Processing, Inc.	12,445	1,275,115
Cognizant Technology Solutions Corp. "A"	16,330	1,084,312
CSRA, Inc.	4,064	129,032
DXC Technology Co.	7,861	603,096
Fidelity National Information Services, Inc.	9,221	787,473
Fiserv, Inc.*	5,923	724,620
Gartner, Inc.*	2,540	313,715
Global Payments, Inc.	4,283	386,841
International Business Machines Corp.	23,704	3,646,386
Mastercard, Inc. "A"	26,010	3,158,914
Paychex, Inc.	8,852	504,033
PayPal Holdings, Inc.*	30,916	1,659,262
Total System Services, Inc.	4,636	270,047
Visa, Inc. "A"	51,198	4,801,348
Western Union Co.	12,910	245,936
		22,104,008
Semiconductors & Semiconductor Equipment 3.4%		
Advanced Micro Devices, Inc.*	21,771	271,702
Analog Devices, Inc.	10,234	796,205
Applied Materials, Inc.	29,690	1,226,494
Broadcom Ltd.	11,120	2,591,516
Intel Corp.	130,488	4,402,665
KLA-Tencor Corp.	4,341	397,245
Lam Research Corp.	4,489	634,879
Microchip Technology, Inc.	6,361	490,942
Micron Technology, Inc.*	29,004	866,060
NVIDIA Corp.	16,493	2,384,228
Qorvo, Inc.*	3,484	220,607
QUALCOMM, Inc.	40,955	2,261,535
Skyworks Solutions, Inc.	5,110	490,305
Texas Instruments, Inc.	27,558	2,120,037
Xilinx, Inc.	6,967	448,117
		19,602,537

	Shares	Value ($)
Software 4.8%		
Activision Blizzard, Inc.	19,183	1,104,365
Adobe Systems, Inc.*	13,753	1,945,224
ANSYS, Inc.*	2,369	288,260
Autodesk, Inc.*	5,324	536,766
CA, Inc.	8,610	296,787
Citrix Systems, Inc.*	4,164	331,371
Electronic Arts, Inc.*	8,550	903,906
Intuit, Inc.	6,739	895,006
Microsoft Corp.	214,045	14,754,122
Oracle Corp.	83,364	4,179,871
Red Hat, Inc.*	4,989	477,697
salesforce.com, Inc.*	18,547	1,606,170
Symantec Corp.	16,775	473,894
Synopsys, Inc.*	4,101	299,086
		28,092,525
Technology Hardware, Storage & Peripherals 4.1%		
Apple, Inc.	144,535	20,815,930
Hewlett Packard Enterprise Co.	46,171	765,977
HP, Inc.	46,824	818,483
NetApp, Inc.	7,377	295,449
Seagate Technology PLC	8,189	317,324
Western Digital Corp.	8,123	719,698
Xerox Corp.	6,090	174,966
		23,907,827
Materials 2.8%		
Chemicals 2.1%		
Air Products & Chemicals, Inc.	6,035	863,367
Albemarle Corp.	3,086	325,696
CF Industries Holdings, Inc.	6,520	182,299
Dow Chemical Co.	31,187	1,966,964
E.I. du Pont de Nemours & Co.	23,983	1,935,668
Eastman Chemical Co.	4,009	336,716
Ecolab, Inc.	7,202	956,066
FMC Corp.	3,715	271,381
International Flavors & Fragrances, Inc.	2,191	295,785
LyondellBasell Industries NV "A"	9,147	771,915
Monsanto Co.	12,166	1,439,968
PPG Industries, Inc.	7,134	784,455
Praxair, Inc.	7,912	1,048,736
The Mosaic Co.	9,825	224,305
The Sherwin-Williams Co.	2,239	785,799
		12,189,120
Construction Materials 0.1%		
Martin Marietta Materials, Inc.	1,751	389,737
Vulcan Materials Co.	3,670	464,916
		854,653
Containers & Packaging 0.3%		
Avery Dennison Corp.	2,496	220,572
Ball Corp.	9,578	404,287
International Paper Co.	11,357	642,920
Sealed Air Corp.	5,419	242,554
WestRock Co.	6,859	388,631
		1,898,964
Metals & Mining 0.3%		
Freeport-McMoRan, Inc.*	37,281	447,745
Newmont Mining Corp.	14,951	484,263
Nucor Corp.	8,779	508,040
		1,440,048

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

	Shares	Value ($)
Real Estate 2.9%		
Equity Real Estate Investment Trusts (REITs) 2.8%		
Alexandria Real Estate Equities, Inc.	2,528	304,548
American Tower Corp.	11,775	1,558,068
Apartment Investment & Management Co. "A"	4,373	187,908
AvalonBay Communities, Inc.	3,812	732,552
Boston Properties, Inc.	4,258	523,819
Crown Castle International Corp.	10,159	1,017,729
Digital Realty Trust, Inc.	4,436	501,046
Equinix, Inc.	2,159	926,556
Equity Residential	10,128	666,726
Essex Property Trust, Inc.	1,842	473,891
Extra Space Storage, Inc.	3,500	273,000
Federal Realty Investment Trust	2,016	254,802
GGP, Inc.	15,994	376,819
HCP, Inc.	13,087	418,261
Host Hotels & Resorts, Inc.	20,560	375,631
Iron Mountain, Inc.	6,686	229,731
Kimco Realty Corp.	11,579	212,475
Mid-America Apartment Communities, Inc.	3,130	329,839
Prologis, Inc.	14,679	860,777
Public Storage	4,151	865,608
Realty Income Corp.	7,520	414,954
Regency Centers Corp.	4,109	257,388
Simon Property Group, Inc.	8,663	1,401,327
SL Green Realty Corp.	2,869	303,540
The Macerich Co.	3,281	190,495
UDR, Inc.	7,462	290,794
Ventas, Inc.	9,809	681,529
Vornado Realty Trust	4,814	452,035
Welltower, Inc.	10,210	764,218
Weyerhaeuser Co.	20,748	695,058
		16,541,124
Real Estate Management & Development 0.1%		
CBRE Group, Inc. "A"*	8,406	**305,979**
Telecommunication Services 2.1%		
Diversified Telecommunication Services		
AT&T, Inc.	170,266	6,424,136
CenturyLink, Inc. (a)	15,322	365,889
Level 3 Communications, Inc.*	8,196	486,023
Verizon Communications, Inc.	113,003	5,046,714
		12,322,762
Utilities 3.1%		
Electric Utilities 1.9%		
Alliant Energy Corp.	6,179	248,210
American Electric Power Co., Inc.	13,656	948,682
Duke Energy Corp.	19,403	1,621,897
Edison International	9,047	707,385
Entergy Corp.	5,010	384,618
Eversource Energy	8,796	534,005
Exelon Corp.	25,689	926,602
FirstEnergy Corp.	12,129	353,682
NextEra Energy, Inc.	12,971	1,817,626
PG&E Corp.	14,088	935,021
Pinnacle West Capital Corp.	3,097	263,740
PPL Corp.	18,871	729,553
Southern Co.	27,499	1,316,652
Xcel Energy, Inc.	14,044	644,339
		11,432,012
Independent Power & Renewable Electricity Producers 0.1%		
AES Corp.	18,485	205,368
NRG Energy, Inc.	8,675	149,384
		354,752
Multi-Utilities 1.0%		
Ameren Corp.	6,812	372,412
CenterPoint Energy, Inc.	11,933	326,726
CMS Energy Corp.	7,764	359,085
Consolidated Edison, Inc.	8,651	699,174
Dominion Energy, Inc.	17,431	1,335,737
DTE Energy Co.	4,967	525,459
NiSource, Inc.	9,033	229,077
Public Service Enterprise Group, Inc.	14,052	604,376
SCANA Corp.	3,890	260,669
Sempra Energy	6,938	782,259
WEC Energy Group, Inc.	8,736	536,216
		6,031,190
Water Utilities 0.1%		
American Water Works Co., Inc.	4,893	**381,410**
Total Common Stocks (Cost $305,339,066)		**575,818,995**

	Principal Amount ($)	Value ($)
Government & Agency Obligation 0.1%		
U.S. Treasury Obligation		
U.S. Treasury Bill, 0.73%**, 8/17/2017 (b) (Cost $584,442)	585,000	**584,339**

	Shares	Value ($)
Securities Lending Collateral 0.2%		
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (c) (d) (Cost $1,138,288)	1,138,288	**1,138,288**
Cash Equivalents 0.9%		
Deutsche Central Cash Management Government Fund, 1.03% (c) (Cost $5,078,102)	5,078,102	**5,078,102**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $312,139,898)†	100.3	**582,619,724**
Other Assets and Liabilities, Net	(0.3)	**(1,629,295)**
Net Assets	100.0	**580,990,429**

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

* Non-income producing security.

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

† The cost for federal income tax purposes was $322,501,979. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $260,117,745. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $280,309,335 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $20,191,590.

(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, 2017 amounted to $1,113,108, which is 0.2% of net assets.

(b) At June 30, 2017, 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.

S&P: Standard & Poor's

At June 30, 2017, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
S&P 500 E-Mini Index	USD	9/15/2017	49	5,931,205	**(23,022)**

Currency Abbreviation	
USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to the Derivatives section of Note A 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, 2017 in valuing the Fund's investments.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stocks (e)	$575,818,995	$ —	$ —	$575,818,995
Government & Agency Obligations	—	584,339	—	584,339
Short-Term Investments (e)	6,216,390	—	—	6,216,390
Total	**$582,035,385**	**$ 584,339**	**$ —**	**$582,619,724**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (f)				
Futures Contracts	$ (23,022)	$ —	$ —	$ (23,022)
Total	**$ (23,022)**	**$ —**	**$ —**	**$ (23,022)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2017.

(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, 2017 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $305,923,508) — including $1,113,108, of securities loaned	$576,403,334
Investment in Deutsche Government & Agency Securities Portfolio (cost $1,138,288)*	1,138,288
Investment in Deutsche Central Cash Management Government Fund (cost $5,078,102)	5,078,102
Total investments in securities, at value (cost $312,139,898)	582,619,724
Cash	3,436
Receivable for Fund shares sold	3,225
Dividends receivable	574,704
Interest receivable	5,367
Receivable for variation margin on futures contracts	2,414
Foreign taxes recoverable	334
Other assets	4,317
Total assets	583,213,521
Liabilities	
Payable upon return of securities loaned	1,138,288
Payable for investments purchased	242,990
Payable for Fund shares redeemed	594,391
Accrued management fee	89,602
Accrued Trustees fees	628
Other accrued expenses and payables	157,193
Total liabilities	2,223,092
Net assets, at value	**$580,990,429**
Net Assets Consist of	
Undistributed net investment income	4,596,270
Net unrealized appreciation (depreciation) on:	
Investments	270,479,826
Futures	(23,022)
Accumulated net realized gain (loss)	3,593,638
Paid-in capital	302,343,717
Net assets, at value	**$580,990,429**
Class A	
Net Asset Value, offering and redemption price per share ($543,687,535 ÷ 27,265,857 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 19.94**
Class B	
Net Asset Value, offering and redemption price per share ($20,779,956 ÷ 1,040,889 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 19.96**
Class B2	
Net Asset Value, offering and redemption price per share ($16,522,938 ÷ 827,316 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 19.97**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $251)	$ 5,772,989
Interest	1,874
Income distributions — Deutsche Central Cash Management Government Fund	24,171
Securities lending income, net of borrower rebates	6,296
Other income	53,939
Total income	5,859,269
Expenses:	
Management fee	570,878
Administration fee	285,439
Services to shareholders	2,148
Record keeping fee (Class B and Class B2)	22,808
Distribution service fees (Class B and Class B2)	44,158
Custodian fee	11,352
Professional fees	39,087
Reports to shareholders	25,206
Trustees fees and expenses	16,105
Other	19,009
Total expenses before expense reductions	1,036,190
Expense reductions	(32,245)
Total expenses after expense reductions	1,003,945
Net investment income	**4,855,324**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	13,059,272
Futures	731,847
	13,791,119
Change in net unrealized appreciation (depreciation) on:	
Investments	31,572,257
Futures	(2,622)
	31,569,635
Net gain (loss)	**45,360,754**
Net increase (decrease) in net assets resulting from operations	**$50,216,078**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income (loss)	$ 4,855,324	$ 9,929,415
Net realized gain (loss)	13,791,119	30,550,655
Change in net unrealized appreciation (depreciation)	31,569,635	17,492,004
Net increase (decrease) in net assets resulting from operations	50,216,078	57,972,074
Distributions to shareholders from:		
Net investment income:		
Class A	(9,614,078)	(10,160,013)
Class B	(291,291)	(239,707)
Class B2	(232,694)	(284,387)
Net realized gains:		
Class A	(27,007,783)	(37,893,356)
Class B	(972,179)	(1,020,192)
Class B2	(832,427)	(1,283,529)
Total distributions	(38,950,452)	(50,881,184)
Fund share transactions:		
Class A		
Proceeds from shares sold	9,266,869	19,113,656
Reinvestment of distributions	36,621,861	48,053,369
Payments for shares redeemed	(31,994,602)	(84,799,336)
Net increase (decrease) in net assets from Class A share transactions	13,894,128	(17,632,311)
Class B		
Proceeds from shares sold	3,938,645	6,018,267
Reinvestment of distributions	1,263,470	1,259,899
Payments for shares redeemed	(3,172,895)	(1,576,659)
Net increase (decrease) in net assets from Class B share transactions	2,029,220	5,701,507
Class B2		
Proceeds from shares sold	230,894	343,915
Reinvestment of distributions	1,065,121	1,567,916
Payments for shares redeemed	(1,640,248)	(2,587,120)
Net increase (decrease) in net assets from Class B2 share transactions	(344,233)	(675,289)
Increase (decrease) in net assets	26,844,741	(5,515,203)
Net assets at beginning of period	554,145,688	559,660,891
Net assets at end of period (including undistributed net investment income of $4,596,270 and $9,879,009, respectively)	**$ 580,990,429**	**$ 554,145,688**

Other Information	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Class A		
Shares outstanding at beginning of period	26,513,791	27,337,468
Shares sold	461,107	1,015,516
Shares issued to shareholders in reinvestment of distributions	1,870,371	2,660,762
Shares redeemed	(1,579,412)	(4,499,955)
Net increase (decrease) in Class A shares	752,066	(823,677)
Shares outstanding at end of period	**27,265,857**	**26,513,791**
Class B		
Shares outstanding at beginning of period	940,533	634,704
Shares sold	194,715	320,148
Shares issued to shareholders in reinvestment of distributions	64,397	69,646
Shares redeemed	(158,756)	(83,965)
Net increase (decrease) in Class B shares	100,356	305,829
Shares outstanding at end of period	**1,040,889**	**940,533**
Class B2		
Shares outstanding at beginning of period	843,125	877,722
Shares sold	11,502	18,490
Shares issued to shareholders in reinvestment of distributions	54,260	86,625
Shares redeemed	(81,571)	(139,712)
Net increase (decrease) in Class B2 shares	(15,809)	(34,597)
Shares outstanding at end of period	**827,316**	**843,125**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$ 19.58**	**$19.40**	**$20.41**	**$19.01**	**$15.01**	**$13.20**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.17	.35	.35	.33	.30	.28
Net realized and unrealized gain (loss)	1.61	1.74	(.10)	2.10	4.37	1.78
Total from investment operations	1.78	2.09	.25	2.43	4.67	2.06
Less distributions from:						
Net investment income	(.37)	(.40)	(.33)	(.37)	(.31)	(.25)
Net realized gains	(1.05)	(1.51)	(.93)	(.66)	(.36)	—
Total distributions	(1.42)	(1.91)	(1.26)	(1.03)	(.67)	(.25)
Net asset value, end of period	**$ 19.94**	**$19.58**	**$19.40**	**$20.41**	**$19.01**	**$15.01**
Total Return (%)	9.21[b]**	11.61[b]	1.13[b]	13.39[b]	31.93[b]	15.70
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	544	519	530	610	600	668
Ratio of expenses before expense reductions (%)[d]	.34*	.34	.34	.34	.34	.35
Ratio of expenses after expense reductions (%)[d]	.33*	.33	.33	.33	.34	.35
Ratio of net investment income (loss) (%)	1.72*	1.88	1.77	1.70	1.76	1.95
Portfolio turnover rate (%)	2**	4	3	3	4[c]	4

[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.
[d] Expense ratio does not reflect charges and fees 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.
* Annualized
** Not annualized

Class B	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$ 19.58**	**$19.40**	**$20.40**	**$19.01**	**$15.00**	**$13.19**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.14	.30	.30	.28	.34	.25
Net realized and unrealized gain (loss)	1.60	1.74	(.09)	2.09	4.29	1.78
Total from investment operations	1.74	2.04	.21	2.37	4.63	2.03
Less distributions from:						
Net investment income	(.31)	(.35)	(.28)	(.32)	(.26)	(.22)
Net realized gains	(1.05)	(1.51)	(.93)	(.66)	(.36)	—
Total distributions	(1.36)	(1.86)	(1.21)	(.98)	(.62)	(.22)
Net asset value, end of period	**$ 19.96**	**$19.58**	**$19.40**	**$20.40**	**$19.01**	**$15.00**
Total Return (%)	9.00[b]**	11.32[b]	.92[b]	13.05[b]	31.68[b]	15.42
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	21	18	12	7	5	47
Ratio of expenses before expense reductions (%)[d]	.70*	.69	.67	.62	.59	.60
Ratio of expenses after expense reductions (%)[d]	.64*	.61	.58	.58	.58	.60
Ratio of net investment income (loss) (%)	1.41*	1.61	1.53	1.45	2.11	1.70
Portfolio turnover rate (%)	2**	4	3	3	4[c]	4

[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.
[d] Expense ratio does not reflect charges and fees 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.
* Annualized
** Not annualized

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

Class B2	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$ 19.57**	**$19.39**	**$20.40**	**$18.99**	**$14.99**	**$13.18**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.13	.28	.28	.27	.23	.22
Net realized and unrealized gain (loss)	1.61	1.74	(.10)	2.09	4.37	1.78
Total from investment operations	1.74	2.02	.18	2.36	4.60	2.00
Less distributions from:						
Net investment income	(.29)	(.33)	(.26)	(.29)	(.24)	(.19)
Net realized gains	(1.05)	(1.51)	(.93)	(.66)	(.36)	—
Total distributions	(1.34)	(1.84)	(1.19)	(.95)	(.60)	(.19)
Net asset value, end of period	**$ 19.97**	**$19.57**	**$19.39**	**$20.40**	**$18.99**	**$14.99**
Total Return (%)[b]	9.00**	11.20	.76	13.00	31.44	15.26
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	17	17	17	19	20	19
Ratio of expenses before expense reductions (%)[d]	.74*	.74	.74	.74	.74	.75
Ratio of expenses after expense reductions (%)[d]	.73*	.71	.68	.68	.72	.74
Ratio of net investment income (loss) (%)	1.32*	1.50	1.42	1.35	1.39	1.55
Portfolio turnover rate (%)	2**	4	3	3	4[c]	4

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.
d Expense ratio does not reflect charges and fees 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.
* Annualized
** Not annualized

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

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Investments VIT Funds (the "Trust") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company. The Trust is organized as a Massachusetts business trust. Deutsche Equity 500 Index VIP (the "Fund") is a diversified series of the Trust offered to investors. The Fund is an underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

Multiple Classes of Shares of Beneficial Interest. The Fund offers three classes of shares to investors: Class A shares, Class B shares and Class B2 shares. Class B and Class B2 shares are subject to Rule 12b-1 distribution fees under the 1940 Act equal to an annual rate of 0.25% of Class B and Class B2 shares average daily net assets. In addition, Class B and Class B2 shares are subject to record keeping fees equal to an annual rate up to 0.15% of average daily net assets. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain fund-level expenses and expense reductions, if any, are borne pro rata on the basis of relative net assets by the holders of all classes of shares, except that each class bears certain expenses unique to that class (including the applicable 12b-1 distribution fees and record keeping fees). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, 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. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016 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 at its fiscal year end 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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $1,921,000 to $7,196,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2017 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Liability Derivative	**Futures Contracts**
Equity Contracts (a)	$ (23,022)

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2017 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 (b)	$731,847

The above derivative is located in the following Statement of Operations account:
(b) Net realized gain (loss) from futures

Change in Net Unrealized Appreciation (Depreciation)	**Futures Contracts**
Equity Contracts (c)	$(2,622)

The above derivative is located in the following Statement of Operations account:
(c) Change in net unrealized appreciation (depreciation) on futures

C. Purchases and Sales of Securities

During the six months ended June 30, 2017, purchases and sales of investment securities (excluding short-term investments) aggregated $8,684,855 and $28,623,988, 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, 2017, 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, 2017 through April 30, 2017 (through April 30, 2018 for Class A shares), 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%

Effective May 1, 2017 through September 30, 2017 (through April 30, 2018 for Class B shares), 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 certain classes as follows:

Class B	.67%
Class B2	.77%

For the six months ended June 30, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 25,178
Class B	6,185
Class B2	882
	$ 32,245

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, 2017, the Administration Fee was $285,439, of which $48,143 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, 2017, the Distribution Service Fees were as follows:

Distribution Service Fees	Total Aggregated	Unpaid at June 30, 2017
Class B	$ 23,553	$ 4,151
Class B2	20,605	3,412
	$ 44,158	**$ 7,563**

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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2017
Class A	$ 221	$ 110
Class B	40	19
Class B2	28	13
	$ 289	**$ 142**

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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under “Reports to shareholders” aggregated $9,209, of which $8,129 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $474.

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, 2017.

F. Ownership of the Fund

At June 30, 2017, 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 50% and 18%, respectively. At June 30, 2017, one participating insurance company was beneficial owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 81%. At June 30, 2017, one participating insurance company was a beneficial owner of record of 93% 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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 1/1/17	$ 1,000.00	$ 1,000.00	$ 1,000.00
Ending Account Value 6/30/17	$ 1,092.10	$ 1,090.00	$ 1,090.00
Expenses Paid per $1,000*	$ 1.71	$ 3.32	$ 3.78

Hypothetical 5% Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 1/1/17	$ 1,000.00	$ 1,000.00	$ 1,000.00
Ending Account Value 6/30/17	$ 1,023.16	$ 1,021.62	$ 1,021.17
Expenses Paid per $1,000*	$ 1.66	$ 3.21	$ 3.66

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

Annualized Expense Ratios	**Class A**	**Class B**	**Class B2**
Deutsche Equity 500 Index VIP	.33%	.64%	.73%

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

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

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

Proxy Voting

The 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Equity 500 Index VIP's (the "Fund") 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 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. Throughout the course of the year, the Board also received information regarding DIMA's oversight of 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, 2015, the Fund's performance (Class A shares) was in the 1st quartile, 2nd quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreements.

Notes

Deutsche
Asset Management

vit-equ500-3 (R-028371-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series II

Deutsche Global Equity VIP

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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. 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

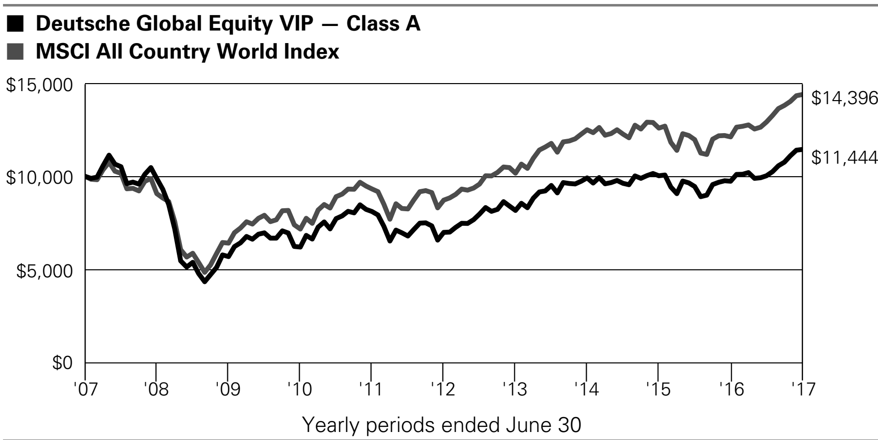
June 30, 2017 (Unaudited)

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, 2017 is 1.03% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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



The MSCI All Country World Index captures large and mid cap representation across 23 Developed Markets and 23 Emerging Markets countries.

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	$11,408	$11,755	$11,542	$16,367	$11,444
	Average annual total return	14.08%	17.55%	4.90%	10.36%	1.36%
MSCI All Country World Index	Growth of $10,000	$11,148	$11,878	$11,517	$16,506	$14,396
	Average annual total return	11.48%	18.78%	4.82%	10.54%	3.71%

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)	**6/30/17**	**12/31/16**
Common Stocks	96%	98%
Cash Equivalents	3%	1%
Preferred Stock	1%	1%
	100%	100%

Sector Diversification

(As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
Information Technology	23%	21%
Health Care	21%	20%
Financials	17%	13%
Consumer Staples	12%	12%
Industrials	8%	8%
Consumer Discretionary	6%	9%
Materials	6%	7%
Energy	4%	6%
Telecommunication Services	2%	2%
Real Estate	1%	2%
	100%	100%

Geographical Diversification

(As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
United States	55%	55%
Canada	8%	7%
Switzerland	8%	7%
United Kingdom	6%	6%
Germany	6%	6%
Sweden	3%	3%
China	2%	1%
Finland	2%	2%
Luxembourg	2%	2%
Ireland	2%	2%
Japan	1%	3%
Other	5%	6%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

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

Sebastian P. Werner, PhD, Director
Mark Schumann, CFA, Director
Portfolio Managers

	Shares	Value ($)
Common Stocks 95.8%		
Australia 0.9%		
Australia & New Zealand Banking Group Ltd. (Cost $434,670)	19,800	**437,069**
Austria 0.0%		
Immofinanz AG* (Cost $0)	887	**2,027**
Canada 8.1%		
Agnico Eagle Mines Ltd.	25,500	1,150,560
Alimentation Couche-Tard, Inc. “B”	16,600	795,694
Brookfield Asset Management, Inc. “A”	33,000	1,295,011
Toronto-Dominion Bank	11,100	559,365
Trisura Group Ltd.* (a)	193	3,230
(Cost $2,623,154)		**3,803,860**
China 2.0%		
Alibaba Group Holding Ltd. (ADR)*	2,100	295,890
Tencent Holdings Ltd.	18,400	657,997
(Cost $655,132)		**953,887**
Finland 1.9%		
Sampo Oyj “A” (Cost $824,246)	17,500	**896,844**
Germany 5.2%		
Allianz SE (Registered)	4,400	866,389
BASF SE	3,000	277,851
Fresenius Medical Care AG & Co. KGaA	13,700	1,317,046
(Cost $1,763,257)		**2,461,286**
Hong Kong 0.6%		
AIA Group Ltd. (Cost $246,513)	41,400	**302,515**
Ireland 1.7%		
Kerry Group PLC "A" (b)	1,579	135,963
Kerry Group PLC "A" (b)	7,921	681,508
(Cost $660,575)		**817,471**
Japan 1.5%		
Japan Tobacco, Inc. (Cost $671,352)	20,000	**701,845**
Luxembourg 1.8%		
Eurofins Scientific (Cost $331,302)	1,500	**844,877**
Malaysia 0.6%		
IHH Healthcare Bhd. (Cost $277,346)	213,000	**285,313**
Mexico 0.9%		
Fomento Economico Mexicano SAB de CV (ADR) (Cost $398,597)	4,400	**432,696**
Norway 0.5%		
Marine Harvest ASA* (Cost $143,938)	12,600	**215,666**
Philippines 0.7%		
Universal Robina Corp. (Cost $459,003)	100,000	**322,830**
Sweden 2.8%		
Assa Abloy AB “B”	30,000	659,133
Essity AB “B”*	18,400	503,425

	Shares	Value ($)
Svenska Cellulosa AB “B”	18,400	139,233
(Cost $1,005,008)		**1,301,791**
Switzerland 7.3%		
Comet Holding AG (Registered)*	2,600	324,560
Lonza Group AG (Registered)*	3,100	670,174
Nestle SA (Registered)	12,015	1,045,627
Roche Holding AG (Genusschein)	3,700	942,267
u-blox Holding AG*	2,500	468,766
(Cost $2,419,277)		**3,451,394**
United Kingdom 6.4%		
Aon PLC	8,000	1,063,600
Compass Group PLC	34,615	730,374
Halma PLC	43,000	616,058
Spirax-Sarco Engineering PLC	8,300	578,353
(Cost $2,165,098)		**2,988,385**
United States 52.9%		
A.O. Smith Corp.	7,000	394,310
Acadia Healthcare Co., Inc.* (a)	12,000	592,560
Activision Blizzard, Inc.	16,943	975,409
Allergan PLC	2,700	656,343
Alliance Data Systems Corp.	2,000	513,380
Alphabet, Inc. “A”*	880	818,118
American Express Co.	5,900	497,016
AMETEK, Inc.	13,000	787,410
Amphenol Corp. “A”	17,400	1,284,468
Apple, Inc.	6,500	936,130
Applied Materials, Inc.	22,000	908,820
Biogen, Inc.*	1,400	379,904
Bristol-Myers Squibb Co.	9,000	501,480
CBRE Group, Inc. “A”*	7,100	258,440
Celgene Corp.*	8,500	1,103,895
CVS Health Corp.	5,600	450,576
Danaher Corp.	9,500	801,705
Ecolab, Inc.	5,000	663,750
EOG Resources, Inc.	6,100	552,172
EPAM Systems, Inc.*	4,900	412,041
Evolent Health, Inc. “A”*	10,300	261,105
Exxon Mobil Corp.	6,200	500,526
Facebook, Inc. “A”*	4,230	638,645
Fidelity National Information Services, Inc.	4,500	384,300
General Electric Co.	16,500	445,665
JPMorgan Chase & Co.	10,300	941,420
L Brands, Inc.	3,000	161,670
LKQ Corp.*	14,000	461,300
Marcus & Millichap, Inc.*	7,000	184,520
Mastercard, Inc. “A”	10,500	1,275,225
Noble Energy, Inc.	13,200	373,560
Progressive Corp.	21,500	947,935
Schlumberger Ltd.	5,700	375,288
Scotts Miracle-Gro Co.	5,000	447,300
T-Mobile U.S., Inc.*	13,000	788,060
Time Warner, Inc.	8,500	853,485
TJX Companies, Inc.	9,600	692,832
Union Pacific Corp.	3,500	381,185
United Technologies Corp.	4,000	488,440
Zoetis, Inc.	13,200	823,416
(Cost $19,745,391)		**24,913,804**
Total Common Stocks (Cost $34,823,859)		**45,133,560**

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

	Shares	Value ($)
Preferred Stock 0.7%		
Germany		
Draegerwerk AG & Co. KGaA (Cost $214,962)	3,000	**315,610**
Securities Lending Collateral 1.3%		
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (c) (d) (Cost $603,925)	603,925	**603,925**

	Shares	Value ($)
Cash Equivalents 3.1%		
Deutsche Central Cash Management Government Fund, 1.03% (c) (Cost $1,440,239)	1,440,239	**1,440,239**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $37,082,985)†	100.9	**47,493,334**
Other Assets and Liabilities, Net	(0.9)	**(406,338)**
Net Assets	100.0	**47,086,996**

* Non-income producing security.

† The Cost for federal income tax purposes was $37,184,681. At June 30, 2017, net unrealized appreciation for all securities based on tax Cost was $10,308,653. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax Cost of $11,429,557 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax Cost over value of $1,120,904.

(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, 2017 amounted to $590,852, which is 1.3% of net assets.

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

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

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

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, 2017 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	$ 437,069	$ —	$ —	$ 437,069
Austria	2,027	—	—	2,027
Canada	3,803,860	—	—	3,803,860
China	953,887	—	—	953,887
Finland	896,844	—	—	896,844
Germany	2,461,286	—	—	2,461,286
Hong Kong	302,515	—	—	302,515
Ireland	817,471	—	—	817,471
Japan	701,845	—	—	701,845
Luxembourg	844,877	—	—	844,877
Malaysia	285,313	—	—	285,313
Mexico	432,696	—	—	432,696
Norway	215,666	—	—	215,666
Philippines	322,830	—	—	322,830
Sweden	1,301,791	—	—	1,301,791
Switzerland	3,451,394	—	—	3,451,394
United Kingdom	2,988,385	—	—	2,988,385
United States	24,913,804	—	—	24,913,804
Preferred Stock	315,610	—	—	315,610
Short-Term Investments (e)	2,044,164	—	—	2,044,164
Total	**$ 47,493,334**	**$ —**	**$ —**	**$ 47,493,334**

As a result of the fair valuation model utilized by the Fund, certain international securities transferred from Level 2 to Level 1. During the period ended June 30, 2017, the amount of the transfers between Level 2 and Level 1 was $13,501,521.

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

(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, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (Cost $35,038,821) — including $590,852 of securities loaned	$	45,449,170
Investment in Deutsche Government & Agency Securities Portfolio (Cost $603,925)*		603,925
Investment in Deutsche Central Cash Management Government Fund (Cost $1,440,239)		1,440,239
Total investments in securities, at value (Cost $37,082,985)		47,493,334
Foreign currency, at value (Cost $207,903)		210,982
Dividends receivable		74,177
Interest receivable		1,336
Foreign taxes recoverable		40,671
Other assets		286
Total assets		47,820,786
Liabilities		
Payable upon return of securities loaned		603,925
Payable for Fund shares redeemed		52,714
Accrued management fee		17,299
Accrued Trustees' fees		414
Other accrued expenses and payables		59,438
Total liabilities		733,790
Net assets, at value	**$**	**47,086,996**
Net Assets Consist of		
Undistributed net investment income		227,603
Net unrealized appreciation (depreciation) on:		
Investments		10,410,349
Foreign currency		4,228
Accumulated net realized gain (loss)		(38,678,337)
Paid-in capital		75,123,153
Net assets, at value	**$**	**47,086,996**
Class A		
Net Asset Value, offering and redemption price per share ($47,086,996 ÷ 4,374,924 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**10.76**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $34,612)	$	452,883
Income distributions — Deutsche Central Cash Management Government Fund		2,217
Securities lending income, including income from Government & Agency Securities Portfolio, net of borrower rebates		5,546
Total income		460,646
Expenses:		
Management fee		147,138
Administration fee		22,637
Services to shareholders		221
Custodian fee		11,310
Professional fees		37,272
Reports to shareholders		10,860
Trustees' fees and expenses		2,499
Other		7,611
Total expenses before expense reductions		239,548
Expense reductions		(24,500)
Total expenses after expense reductions		215,048
Net investment income		**245,598**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		587,863
Foreign currency		(217)
		587,646
Change in net unrealized appreciation (depreciation) on:		
Investments		5,146,541
Foreign currency		10,957
		5,157,498
Net gain (loss)		**5,745,144**
Net increase (decrease) in net assets resulting from operations	**$**	**5,990,742**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income	$ 245,598	$ 218,495
Net realized gain (loss)	587,646	1,040,800
Change in net unrealized appreciation (depreciation)	5,157,498	1,213,259
Net increase (decrease) in net assets resulting from operations	5,990,742	2,472,554
Distributions to shareholders from:		
Net investment income:		
Class A	(233,988)	(336,718)
Fund share transactions:		
Class A		
Proceeds from shares sold	756,579	1,414,193
Reinvestment of distributions	233,988	336,718
Payments for shares redeemed	(3,152,187)	(9,403,270)
Net increase (decrease) in net assets from Class A share transactions	(2,161,620)	(7,652,359)
Increase (decrease) in net assets	3,595,134	(5,516,523)
Net assets at beginning of period	43,491,862	49,008,385
Net assets at end of period (including undistributed net investment income of $227,603 and $215,993, respectively)	**$ 47,086,996**	**$ 43,491,862**

Other Information		
Class A		
Shares outstanding at beginning of period	4,587,493	5,446,357
Shares sold	73,220	152,025
Shares issued to shareholders in reinvestment of distributions	22,499	36,640
Shares redeemed	(308,288)	(1,047,529)
Net increase (decrease) in Class A shares	(212,569)	(858,864)
Shares outstanding at end of period	**4,374,924**	**4,587,493**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$ 9.48**	**$ 9.00**	**$ 9.21**	**$ 9.27**	**$ 7.96**	**$ 6.98**
Income (loss) from investment operations:						
Net investment income[a]	.05	.04	.05	.06	.14	.18
Net realized and unrealized gain (loss)	1.28	.51	(.21)	.04	1.37	1.01
Total from investment operations	1.33	.55	(.16)	.10	1.51	1.19
Less distributions from:						
Net investment income	(.05)	(.07)	(.05)	(.16)	(.20)	(.21)
Net asset value, end of period	**$10.76**	**$ 9.48**	**$ 9.00**	**$ 9.21**	**$ 9.27**	**$ 7.96**
Total Return (%)	14.08[b]**	6.11[b,c]	(1.75)[b]	1.14	19.31[b]	17.34
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	47	43	49	68	73	67
Ratio of expenses before expense reductions (%)[d]	1.06*	1.03	1.00	.95	1.06	1.02
Ratio of expenses after expense reductions (%)[d]	.95*	.95	.91	.95	.99	1.02
Ratio of net investment income (%)	1.09*	.49	.58	.59	1.69	2.46
Portfolio turnover rate (%)	6**	46	79	78	139	18

a Based on average shares outstanding during the period.

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

c Includes a reimbursement by the Advisor for a realized loss on a trade executed incorrectly, which otherwise would have reduced total return by 0.31%.

d Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

A. Organization and Significant Accounting Policies

Deutsche Global Equity VIP (the "Fund") is a diversified series of Deutsche Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, 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. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016, the Fund had a net tax basis capital loss carryforward of approximately $39,164,000 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 ($39,164,000), the expiration date, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, expiration of capital loss carryforward 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, 2017, purchases and sales of investment transactions (excluding short-term investments) aggregated $2,645,538 and $5,650,894, 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, 2017, 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, 2017 through April 30, 2018, 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) of Class A shares at 0.95%.

For the six months ended June 30, 2017, fees waived and/or expenses reimbursed were $24,500.

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, 2017, the Administration Fee was $22,637, of which $3,898 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, 2017, the amounts charged to the Fund by DSC aggregated $40, of which $20 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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,619, of which $5,349 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, 2017, the Fund incurred lending agent fees to Deutsche Bank AG in the amount of $393.

D. Ownership of the Fund

At June 30, 2017, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 74% and 25%.

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, 2017.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,140.80
Expenses Paid per $1,000*	$ 5.04

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,020.08
Expenses Paid per $1,000*	$ 4.76

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Global Equity VIP	.95%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Global Equity VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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, 2015. 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 2016. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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,seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Deutsche
Asset Management

VS2GE-3 (R-028380-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series II

Deutsche Global Growth VIP

(Effective on or about October 1, 2017, Deutsche Global Growth VIP will be renamed
Deutsche International Growth VIP.)

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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 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

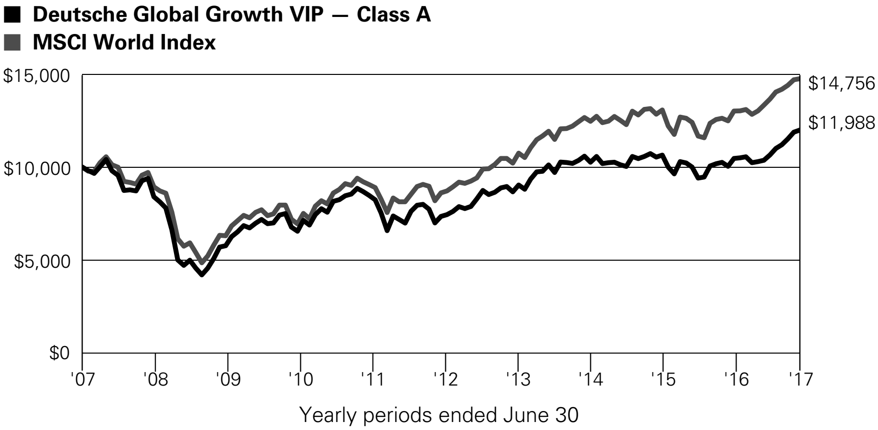
June 30, 2017 (Unaudited)

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, 2017 are 1.66% and 1.98% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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



The Morgan Stanley Capital International (MSCI) World Index captures large and mid cap representation across 23 Developed Markets countries.

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

The growth of $10,000 is cumulative.

Comparative Results

Deutsche Global Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,563	$11,939	$11,331	$16,333	$11,988
	Average annual total return	15.63%	19.39%	4.25%	10.31%	1.83%
MSCI World Index	Growth of $10,000	$11,066	$11,820	$11,655	$17,144	$14,756
	Average annual total return	10.66%	18.20%	5.24%	11.38%	3.97%

Deutsche Global Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,564	$11,928	$11,230	$16,088	$11,596
	Average annual total return	15.64%	19.28%	3.94%	9.98%	1.49%
MSCI World Index	Growth of $10,000	$11,066	$11,820	$11,655	$17,144	$14,756
	Average annual total return	10.66%	18.20%	5.24%	11.38%	3.97%

‡ 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)	**6/30/17**	**12/31/16**
Common Stocks	97%	97%
Cash Equivalents	2%	2%
Preferred Stock	1%	1%
Warrants	0%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
Information Technology	23%	20%
Health Care	21%	20%
Financials	20%	18%
Consumer Discretionary	11%	13%
Industrials	9%	10%
Consumer Staples	9%	9%
Materials	4%	5%
Energy	2%	3%
Telecommunication Services	1%	2%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
United States	54%	56%
Canada	6%	5%
Switzerland	6%	5%
Germany	6%	6%
United Kingdom	5%	5%
Japan	3%	6%
China	3%	1%
Sweden	3%	3%
Singapore	2%	2%
Netherlands	2%	1%
Hong Kong	1%	2%
Other	9%	8%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

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

Sebastian P. Werner, PhD, Director
Mark Schumann, CFA, Director
Portfolio Managers

Investment Portfolio

June 30, 2017 (Unaudited)

	Shares	Value ($)
Common Stocks 96.7%		
Australia 1.1%		
Australia & New Zealand Banking Group Ltd. (Cost $326,112)	14,500	**320,076**
Canada 6.1%		
Agnico Eagle Mines Ltd.	11,000	496,052
Alimentation Couche-Tard, Inc. "B"	7,500	359,500
Brookfield Asset Management, Inc. "A"	15,734	617,445
Toronto-Dominion Bank	6,700	337,635
Trisura Group Ltd.*	92	1,540
(Cost $1,285,510)		**1,812,172**
China 2.8%		
Alibaba Group Holding Ltd. (ADR)*	2,500	352,250
Minth Group Ltd.	38,870	164,791
Tencent Holdings Ltd.	9,000	321,846
(Cost $591,008)		**838,887**
Finland 1.0%		
Cramo Oyj	2,641	79,030
Sampo Oyj "A"	4,500	230,617
(Cost $272,658)		**309,647**
France 0.6%		
LVMH Moet Hennessy Louis Vuitton SE (Cost $137,668)	750	**186,998**
Germany 5.1%		
Allianz SE (Registered)	1,700	334,741
BASF SE	1,500	138,926
Continental AG	1,060	228,758
Fresenius Medical Care AG & Co. KGaA	4,730	454,717
Siemens AG (Registered)	2,600	357,390
(Cost $1,241,815)		**1,514,532**
Hong Kong 1.2%		
AIA Group Ltd.	25,000	182,678
Techtronic Industries Co., Ltd.	38,097	175,177
(Cost $267,206)		**357,855**
Indonesia 0.7%		
PT Arwana Citramulia Tbk	621,918	22,416
PT Bank Rakyat Indonesia Persero Tbk	150,000	171,764
(Cost $187,898)		**194,180**
Ireland 1.3%		
Avadel Pharmaceuticals PLC (ADR)*	9,500	104,785
Kerry Group PLC "A"	3,300	283,926
(Cost $354,661)		**388,711**
Italy 0.5%		
Luxottica Group SpA (Cost $152,470)	2,600	**150,410**
Japan 3.3%		
Bandai Namco Holdings, Inc.	4,700	160,044
FANUC Corp.	800	154,025
Hoya Corp.	6,200	321,535
MISUMI Group, Inc.	7,511	171,356
Murata Manufacturing Co., Ltd.	1,200	182,120
(Cost $814,446)		**989,080**
Korea 0.4%		
Vieworks Co., Ltd. (Cost $132,359)	2,500	**125,639**
Luxembourg 1.1%		
Eurofins Scientific (Cost $130,977)	600	**337,951**
Malaysia 0.4%		
IHH Healthcare Bhd. (Cost $125,729)	92,000	**123,234**
Netherlands 1.5%		
Core Laboratories NV	1,268	128,410
ING Groep NV	18,600	320,784
(Cost $376,498)		**449,194**
Norway 0.4%		
Marine Harvest ASA* (Cost $82,965)	7,200	**123,237**
Philippines 0.3%		
Universal Robina Corp. (Cost $126,279)	27,000	**87,164**
Singapore 1.7%		
Broadcom Ltd. (Cost $363,221)	2,100	**489,405**
Sweden 2.5%		
Assa Abloy AB "B"	15,000	329,567
Essity AB "B"*	9,300	254,448
Nobina AB 144A	18,000	97,642
Svenska Cellulosa AB "B"	9,300	70,373
(Cost $595,913)		**752,030**
Switzerland 5.8%		
Lonza Group AG (Registered)*	1,928	416,805
Nestle SA (Registered)	6,180	537,826
Novartis AG (Registered)	4,100	341,203
Roche Holding AG (Genusschein)	1,700	432,934
(Cost $1,425,458)		**1,728,768**
Taiwan 1.1%		
Taiwan Semiconductor Manufacturing Co., Ltd. (Cost $285,923)	47,000	**322,140**
United Kingdom 5.1%		
Aon PLC	4,300	571,685
Clinigen Healthcare Ltd.	5,959	66,825
Compass Group PLC	11,923	251,573
Halma PLC	11,000	157,597
Reckitt Benckiser Group PLC	4,600	466,360
(Cost $1,177,032)		**1,514,040**
United States 52.7%		
A.O. Smith Corp.	4,000	225,320
Acadia Healthcare Co., Inc.* (a)	4,500	222,210
Activision Blizzard, Inc.	7,000	402,990
Allergan PLC	1,610	391,375
Alliance Data Systems Corp.	1,200	308,028
Alphabet, Inc. "A"*	860	799,525
Ameriprise Financial, Inc.	1,700	216,393
AMETEK, Inc.	6,700	405,819

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

	Shares	Value ($)
Amgen, Inc.	900	155,007
Amphenol Corp. "A"	7,000	516,740
Apple, Inc.	4,200	604,884
Becton, Dickinson & Co.	1,600	312,176
Biogen, Inc.*	950	257,792
Celgene Corp.*	4,200	545,454
Citigroup, Inc.	5,600	374,528
Colgate-Palmolive Co.	1,900	140,847
Costco Wholesale Corp.	1,680	268,682
Danaher Corp.	3,700	312,243
Ecolab, Inc.	2,400	318,600
EOG Resources, Inc.	2,150	194,618
EPAM Systems, Inc.*	2,800	235,452
Facebook, Inc. "A"*	3,000	452,940
Fiserv, Inc.*	2,600	318,084
General Electric Co.	9,700	261,997
Home Depot, Inc.	2,100	322,140
Jack in the Box, Inc.	2,200	216,700
JPMorgan Chase & Co.	5,300	484,420
L Brands, Inc.	2,900	156,281
Marsh & McLennan Companies, Inc.	4,300	335,228
Mastercard, Inc. "A"	3,700	449,365
Microsoft Corp.	3,600	248,148
NIKE, Inc. "B"	3,500	206,500
NVIDIA Corp.	1,400	202,384
Praxair, Inc.	1,200	159,060
Progressive Corp.	11,500	507,035
QUALCOMM, Inc.	2,600	143,572
Retrophin, Inc.*	5,000	96,950
S&P Global, Inc.	3,500	510,965
Schlumberger Ltd.	1,900	125,096
T-Mobile U.S., Inc.*	6,000	363,720
The Priceline Group, Inc.*	230	430,220
Thermo Fisher Scientific, Inc.	2,600	453,622
Time Warner, Inc.	2,800	281,148
TJX Companies, Inc.	4,000	288,680
TriState Capital Holdings, Inc.*	4,035	101,682
Union Pacific Corp.	1,400	152,474
United Technologies Corp.	2,600	317,486
Wabtec Corp.	1,800	164,700
Wells Fargo & Co.	4,200	232,722
Zoetis, Inc.	8,000	499,040
(Cost $12,558,181)		**15,691,042**
Total Common Stocks (Cost $23,011,987)		**28,806,392**

	Shares	Value ($)
Warrants 0.0%		
France		
Parrot SA Expiration Date 12/15/2022*	924	137
Parrot SA Expiration Date 12/22/2022*	924	139
Total Warrants (Cost $0)		**276**
Preferred Stocks 0.6%		
Germany 0.5%		
Draegerwerk AG & Co. KGaA (Cost $116,360)	1,600	**168,326**
United States 0.1%		
Providence Service Corp. (Cost $13,600)	136	**17,259**
Total Preferred Stocks (Cost $129,960)		**185,585**
Securities Lending Collateral 0.8%		
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (b) (c) (Cost $226,091)	226,091	**226,091**
Cash Equivalents 2.3%		
Deutsche Central Cash Management Government Fund, 1.03% (b) (Cost $677,445)	677,445	**677,445**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $24,045,483)†	100.4	**29,895,789**
Other Assets and Liabilities, Net	(0.4)	**(112,887)**
Net Assets	100.0	**29,782,902**

* Non-income producing security.

† The Cost for federal income tax purposes was $24,084,634. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $5,811,155. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax Cost of $6,218,841 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax Cost over value of $407,686.

(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, 2017 amounted to $219,988, which is 0.7% 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.

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

S&P: Standard & Poor's

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, 2017 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	$ 320,076	$ —	$ —	$ 320,076
Canada	1,812,172	—	—	1,812,172
China	838,887	—	—	838,887
Finland	309,647	—	—	309,647
France	186,998	—	—	186,998
Germany	1,514,532	—	—	1,514,532
Hong Kong	357,855	—	—	357,855
Indonesia	194,180	—	—	194,180
Ireland	388,711	—	—	388,711
Italy	150,410	—	—	150,410
Japan	989,080	—	—	989,080
Korea	125,639	—	—	125,639
Luxembourg	337,951	—	—	337,951
Malaysia	123,234	—	—	123,234
Netherlands	449,194	—	—	449,194
Norway	123,237	—	—	123,237
Philippines	87,164	—	—	87,164
Singapore	489,405	—	—	489,405
Sweden	752,030	—	—	752,030
Switzerland	1,728,768	—	—	1,728,768
Taiwan	322,140	—	—	322,140
United Kingdom	1,514,040	—	—	1,514,040
United States	15,691,042	—	—	15,691,042
Warrants (d)	—	—	276	276
Preferred Stocks (d)	168,326	—	17,259	185,585
Short-Term Investments (d)	903,536	—	—	903,536
Total	**$ 29,878,254**	**$**	**$ 17,535**	**$ 29,895,789**

As a result of the fair valuation model utilized by the Fund, certain international securities transferred from Level 2 to Level 1. During the period ended June 30, 2017, the amount of the transfers between Level 2 and Level 1 was $9,085,570.

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

(d) See Investment Portfolio for additional detailed categorizations.

Statement of Assets and Liabilities

as of June 30, 2017 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (Cost $23,141,947) — including $219,988 of securities loaned	$ 28,992,253
Investment in Deutsche Government & Agency Securities Portfolio (cost $226,091)*	226,091
Investment in Deutsche Central Cash Management Government Fund (Cost $677,445)	677,445
Total investments in securities, at value (Cost $24,045,483)	29,895,789
Foreign currency, at value (Cost $206,219)	207,088
Receivable for investments sold	156,592
Receivable for Fund shares sold	6,822
Dividends receivable	37,078
Interest receivable	607
Foreign taxes recoverable	20,576
Other assets	700
Total assets	30,325,252
Liabilities	
Payable upon return of securities loaned	226,091
Payable for investments purchased	152,363
Payable for Fund shares redeemed	77,769
Accrued management fee	17,614
Accrued Directors' fees	332
Other accrued expenses and payables	68,181
Total liabilities	542,350
Net assets, at value	**29,782,902**
Net Assets Consist of	
Undistributed net investment income	161,954
Net unrealized appreciation (depreciation) on:	
Investments	5,850,306
Foreign currency	1,623
Accumulated net realized gain (loss)	(17,631,235)
Paid-in capital	41,400,254
Net assets, at value	**29,782,902**
Class A	
Net Asset Value, offering and redemption price per share ($29,627,835 ÷ 2,312,514 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 12.81**
Class B	
Net Asset Value, offering and redemption price per share ($155,067 ÷ 12,061 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 12.86**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $26,533)	$ 307,106
Income distributions — Deutsche Central Cash Management Government Fund	1,855
Securities lending income, net of borrower rebates	1,054
Total income	310,015
Expenses:	
Management fee	129,166
Administration fee	14,117
Services to shareholders	474
Distribution service fee (Class B)	120
Custodian fee	16,783
Professional fees	38,807
Reports to shareholders	10,989
Directors' fees and expenses	1,623
Other	8,476
Total expenses before expense reductions	220,555
Expense reductions	(86,328)
Total expenses after expense reductions	134,227
Net investment income (loss)	**175,788**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	189,300
Foreign currency	3,286
	192,586
Change in net unrealized appreciation (depreciation) on:	
Investments	3,744,781
Foreign currency	7,048
	3,751,829
Net gain (loss)	**3,944,415**
Net increase (decrease) in net assets resulting from operations	**$ 4,120,203**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income (loss)	$ 175,788	$ 146,983
Net realized gain (loss)	192,586	1,336,318
Change in net unrealized appreciation (depreciation)	3,751,829	(701,827)
Net increase (decrease) in net assets resulting from operations	4,120,203	781,474
Distributions to shareholders from:		
Net investment income:		
Class A	(106,825)	(243,128)
Class B	(65)	(285)
Total distributions	(106,890)	(243,413)
Fund share transactions:		
Class A		
Proceeds from shares sold	794,044	1,028,197
Reinvestment of distributions	106,825	243,128
Payments for shares redeemed	(2,143,526)	(8,614,441)
Net increase (decrease) in net assets from Class A share transactions	(1,242,657)	(7,343,116)
Class B		
Proceeds from shares sold	73,359	14,771
Reinvestment of distributions	65	285
Payments for shares redeemed	(903)	(11,122)
Net increase (decrease) in net assets from Class B share transactions	72,521	3,934
Increase (decrease) in net assets	2,843,177	(6,801,121)
Net assets at beginning of period	26,939,725	33,740,846
Net assets at end of period (including undistributed net investment income of $161,954 and $93,056, respectively)	**$ 29,782,902**	**$ 26,939,725**

Other Information		
Class A		
Shares outstanding at beginning of period	2,417,159	3,116,107
Shares sold	64,042	95,060
Shares issued to shareholders in reinvestment of distributions	8,713	22,163
Shares redeemed	(177,400)	(816,171)
Net increase (decrease) in Class A shares	(104,645)	(698,948)
Shares outstanding at end of period	**2,312,514**	**2,417,159**
Class B		
Shares outstanding at beginning of period	6,272	6,040
Shares sold	5,858	1,328
Shares issued to shareholders in reinvestment of distributions	5	26
Shares redeemed	(74)	(1,122)
Net increase (decrease) in Class B shares	5,789	232
Shares outstanding at end of period	**12,061**	**6,272**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$11.12**	**$10.81**	**$11.04**	**$11.13**	**$ 9.24**	**$ 7.90**
Income (loss) from investment operations:						
Net investment income[a]	.07	.06	.07	.08	.10	.12
Net realized and unrealized gain (loss)	1.67	.34	(.21)	(.06)	1.92	1.34
Total from investment operations	1.74	.40	(.14)	.02	2.02	1.46
Less distributions from:						
Net investment income	(.05)	(.09)	(.09)	(.11)	(.13)	(.12)
Net asset value, end of period	**$12.81**	**$11.12**	**$10.81**	**$11.04**	**$11.13**	**$ 9.24**
Total Return (%)[b]	15.63**	3.72	(1.32)	.21	22.08	18.60
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	30	27	34	47	51	54
Ratio of expenses before expense reductions (%)[c]	1.56*	1.66	1.44	1.41	1.45	1.42
Ratio of expenses after expense reductions (%)[c]	.95*	.95	.90	.82	.88	.99
Ratio of net investment income (%)	1.25*	.51	.65	.71	1.00	1.40
Portfolio turnover rate (%)	11**	70	64	63	171	107

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$11.13**	**$10.82**	**$11.05**	**$11.14**	**$ 9.25**	**$ 7.91**
Income (loss) from investment operations:						
Net investment income[a]	.06	.02	.05	.02	.07	.09
Net realized and unrealized gain (loss)	1.68	.35	(.23)	(.04)	1.92	1.34
Total from investment operations	1.74	.37	(.18)	(.02)	1.99	1.43
Less distributions from:						
Net investment income	(.01)	(.06)	(.05)	(.07)	(.10)	(.09)
Net asset value, end of period	**$12.86**	**$11.13**	**$10.82**	**$11.05**	**$11.14**	**$ 9.25**
Total Return (%)[b]	15.64**	3.38	(1.64)	(.15)	21.62	18.16
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.16	.07	.1	.1	3	3
Ratio of expenses before expense reductions (%)[c]	1.85*	1.98	1.76	1.76	1.81	1.76
Ratio of expenses after expense reductions (%)[c]	1.20*	1.24	1.22	1.15	1.23	1.34
Ratio of net investment income (%)	.94*	.17	.40	.14	.66	1.04
Portfolio turnover rate (%)	11**	70	64	63	171	107

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, 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. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016, the Fund had a net tax basis capital loss carryforward of approximately $17,790,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2017, the expiration date, whichever occurs first.

From November 1, 2016 through December 31, 2016, the Fund elects to defer qualified late year losses of approximately $360 of net short-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2017.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

The timing and characterization of certain income and capital gain distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to investments in foreign denominated investments, income received from Passive Foreign Investment Companies and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

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

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

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the six months ended June 30, 2017, purchases and sales of investment transactions (excluding short-term investments) aggregated $2,945,313 and $4,182,035, respectively.

C. Related Parties

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

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

First $250 million	.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, 2017, 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, 2017 through April 30, 2018, 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	.95%
Class B	1.20%

For the six months ended June 30, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 86,016
Class B	312
	$ 86,328

Effective on or about October 1, 2017, the Fund will pay the Advisor a monthly management fee computed and accrued daily and payable monthly, at the a rate of 0.62% of the Fund's average daily net assets.

In addition, effective on or about October 1, 2017 through September 30, 2018, the Advisor has contractually agreed to waive its fees and/or reimburse Fund expenses to the extent necessary to maintain the Fund's total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expenses) 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 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, 2017, the Administration Fee was $14,117, of which $2,467 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2017
Class A	$ 116	$ 57
Class B	20	10
	$ 136	**$ 67**

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, 2017, the Distribution Service Fee aggregated $120, of which $32 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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $6,558, of which $6,289 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, 2017, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 66% and 25%. Three participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 47%, 36%, 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, 2017.

F. Fund Name and Strategy Change

Effective on or about October 1, 2017, Deutsche Global Growth VIP will be renamed Deutsche International Growth VIP. At that time, the Fund's principal investment strategy will also change to reflect a foreign growth strategy and the Fund's non-fundamental policy will change to reflect the shift from a global to international focus. The Fund will generally invest less than 20% of its assets in U.S. equities. The Fund's benchmark will also change from the MSCI World Index to the MSCI ACWI ex US Index.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,156.30	$1,156.40
Expenses Paid per $1,000*	$ 5.08	$ 6.42
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,020.08	$1,018.84
Expenses Paid per $1,000*	$ 4.76	$ 6.01

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Global Growth VIP	.95%	1.20%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Global Growth VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 3rd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2015. 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 considered that effective on or about October 3, 2016, the Fund would change its investment strategy and portfolio managers. The Board observed that the Fund had experienced improved relative performance during the first seven months of 2016. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

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Deutsche
Asset Management

VS2GG-3 (R-028383-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series II

Deutsche Global Income Builder VIP

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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.

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

Performance Summary

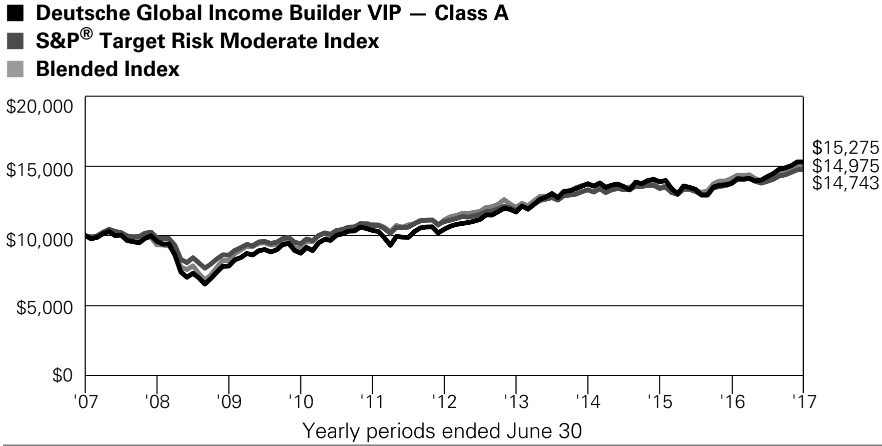
June 30, 2017 (Unaudited)

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, 2017 is 0.66% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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 Bloomberg 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.

Bloomberg 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	$10,746	$11,119	$11,145	$14,616	$15,275
	Average annual total return	7.46%	11.19%	3.68%	7.89%	4.33%
S&P® Target Risk Moderate Index	Growth of $10,000	$10,618	$10,745	$11,104	$13,394	$14,743
	Average annual total return	6.18%	7.45%	3.55%	6.02%	3.96%
Blended Index	Growth of $10,000	$10,593	$10,625	$10,945	$13,472	$14,975
	Average annual total return	5.93%	6.25%	3.06%	6.14%	4.12%

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)	**6/30/17**	**12/31/16**
Equity	**62%**	**58%**
Common Stocks	62%	58%
Fixed Income	**36%**	**41%**
Government & Agency Obligations	12%	13%
Corporate Bonds	11%	14%
Exchange-Traded Funds	9%	10%
Collateralized Mortgage Obligations	2%	1%
Commercial Mortgage-Backed Securities	1%	1%
Asset-Backed	1%	1%
Municipal Bonds and Notes	0%	0%
Mortgage-Backed Securities Pass-Throughs	0%	1%
Cash Equivalents	**2%**	**1%**
	100%	100%

Sector Diversification (As a % of Equities, Corporate Bonds, Preferred Securities and Convertible Bonds)	**6/30/17**	**12/31/16**
Financials	18%	29%
Information Technology	16%	19%
Consumer Discretionary	13%	9%
Industrials	10%	8%
Energy	9%	4%
Health Care	9%	7%
Telecommunication Services	7%	6%
Utilities	7%	7%
Consumer Staples	5%	7%
Materials	4%	3%
Real Estate	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

Di Kumble, CFA, Managing Director

Gary Russell, CFA, Managing Director

John D. Ryan, Managing Director

Darwei Kung, Managing Director

Portfolio Managers

	Shares	Value ($)
Common Stocks 62.6%		
Consumer Discretionary 7.7%		
Auto Components 0.4%		
Bridgestone Corp.	6,705	288,528
Nokian Renkaat Oyj	5,565	230,344
Stanley Electric Co., Ltd.	10,100	304,414
		823,286
Automobiles 1.2%		
Bayerische Motoren Werke (BMW) AG	2,907	269,868
Daimler AG (Registered)	3,916	283,432
Ford Motor Co.	29,415	329,154
General Motors Co.	9,123	318,666
Honda Motor Co., Ltd.	9,850	268,330
Nissan Motor Co., Ltd.	23,585	234,435
Subaru Corp.	7,600	255,822
Toyota Motor Corp.	5,200	272,448
		2,232,155
Hotels, Restaurants & Leisure 1.5%		
Carnival Corp.	4,688	307,392
Compass Group PLC	13,435	283,466
Darden Restaurants, Inc.	3,300	298,452
Las Vegas Sands Corp.	5,000	319,450
McDonald's Corp.	2,223	340,475
Royal Caribbean Cruises Ltd.	2,638	288,149
Starbucks Corp.	4,733	275,981
TUI AG	18,677	272,206
Yum! Brands, Inc.	4,110	303,154
		2,688,725
Household Durables 0.9%		
Berkeley Group Holdings PLC	7,337	308,375
Garmin Ltd.	5,900	301,077
Leggett & Platt, Inc.	5,300	278,409
Persimmon PLC	10,545	307,924
Sekisui House Ltd.	17,054	300,141
Taylor Wimpey PLC	98,161	225,271
		1,721,197
Internet & Direct Marketing Retail 0.2%		
Amazon.com, Inc.*	300	**290,400**
Leisure Products 0.2%		
Mattel, Inc.	14,800	**318,644**
Media 1.8%		
CBS Corp. "B"	4,486	286,117
Charter Communications, Inc. "A"*	917	308,892
Comcast Corp. "A"	9,788	380,949
Interpublic Group of Companies, Inc.	11,800	290,280
ITV PLC	109,919	259,699
Omnicom Group, Inc.	3,379	280,119
SES SA	12,412	290,970
Shaw Communications, Inc. "B"	13,377	291,823
Time Warner, Inc.	3,327	334,064
Twenty-First Century Fox, Inc. "B"	10,143	282,685
Walt Disney Co.	3,209	340,956
		3,346,554
Multiline Retail 0.3%		
Marks & Spencer Group PLC	58,006	251,808
Target Corp.	5,002	261,554
		513,362
Specialty Retail 0.6%		
Hennes & Mauritz AB "B"	11,514	286,869
Home Depot, Inc.	1,883	288,852
Lowe's Companies, Inc.	3,331	258,253
TJX Companies, Inc.	3,100	223,727
		1,057,701
Textiles, Apparel & Luxury Goods 0.6%		
Cie Financiere Richemont SA (Registered)	2,805	231,093
Coach, Inc.	6,700	317,178
NIKE, Inc. "B"	4,342	256,178
VF Corp.	5,841	336,442
		1,140,891
Consumer Staples 3.3%		
Beverages 0.3%		
Anheuser-Busch InBev SA	2,397	264,766
PepsiCo, Inc.	3,295	380,540
		645,306
Food & Staples Retailing 0.9%		
Costco Wholesale Corp.	1,400	223,902
CVS Health Corp.	3,511	282,495
Sysco Corp.	5,174	260,408
Wal-Mart Stores, Inc.	4,146	313,769
Walgreens Boots Alliance, Inc.	3,274	256,387
Wesfarmers Ltd.	8,909	274,720
		1,611,681
Food Products 0.8%		
General Mills, Inc.	5,016	277,886
Kellogg Co.	3,956	274,784
Kraft Heinz Co.	3,164	270,965
Nestle SA (Registered)	3,655	318,083
The Hershey Co.	2,653	284,853
		1,426,571
Household Products 0.5%		
Colgate-Palmolive Co.	3,944	292,369
Kimberly-Clark Corp.	2,183	281,847
Procter & Gamble Co.	3,318	289,163
		863,379
Tobacco 0.8%		
British American Tobacco PLC	4,150	282,906
Imperial Brands PLC	6,037	271,152
Japan Tobacco, Inc.	8,477	297,477
Philip Morris International, Inc.	2,719	319,346
Reynolds American, Inc.	4,592	298,664
		1,469,545
Energy 3.6%		
Energy Equipment & Services 0.2%		
Schlumberger Ltd.	4,000	**263,360**
Oil, Gas & Consumable Fuels 3.4%		
BP PLC	49,147	283,443
China Petroleum & Chemical Corp. (ADR) (a)	3,800	298,680
CNOOC Ltd. (ADR)	2,500	273,525
Enbridge, Inc.	6,879	274,020
Eni SpA	14,891	223,822
HollyFrontier Corp.	10,332	283,820
JXTG Holdings, Inc.	62,585	273,043
Kinder Morgan, Inc.	14,200	272,072
Marathon Petroleum Corp.	5,600	293,048

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

	Shares	Value ($)
Neste Oyj	6,867	270,510
Occidental Petroleum Corp.	4,749	284,323
Pembina Pipeline Corp.	8,900	294,768
PetroChina Co., Ltd. (ADR)	4,200	257,376
Phillips 66	3,565	294,790
Royal Dutch Shell PLC "A"	14,336	379,973
Royal Dutch Shell PLC "B"	12,417	333,558
Snam SpA	61,516	268,114
Statoil ASA	13,115	217,412
Suncor Energy, Inc.	9,100	265,884
TOTAL SA	6,421	317,441
TransCanada Corp. (a)	6,100	290,794
Valero Energy Corp.	4,617	311,463
		6,261,879
Financials 10.9%		
Banks 6.9%		
Australia & New Zealand Banking Group Ltd.	12,913	285,044
Banco Bilbao Vizcaya Argentaria SA	33,669	279,376
Banco Bradesco SA (ADR)	29,400	249,900
Bank of America Corp.	12,900	312,954
Bank of Montreal	4,082	299,729
Bank of Nova Scotia	5,098	306,674
BB&T Corp.	6,518	295,982
BNP Paribas SA	3,910	281,614
Canadian Imperial Bank of Commerce	3,594	292,082
Citigroup, Inc.	4,800	321,024
Commonwealth Bank of Australia	4,534	288,579
Credit Agricole SA	18,166	292,240
Danske Bank AS	7,569	291,118
DBS Group Holdings Ltd.	19,771	297,839
Hang Seng Bank Ltd.	13,700	286,548
HSBC Holdings PLC	33,417	309,760
ING Groep NV	16,656	287,257
Intesa Sanpaolo SpA	80,716	255,919
Intesa Sanpaolo SpA (RSP)	85,487	253,471
Itau Unibanco Holding SA (ADR) (Preferred)	23,500	259,675
Japan Post Bank Co., Ltd.	22,600	288,942
KB Financial Group, Inc. (ADR)	6,300	318,087
KBC Group NV	3,028	229,674
Lloyds Banking Group PLC	317,775	273,785
M&T Bank Corp.	1,810	293,129
Mitsubishi UFJ Financial Group, Inc.	43,900	294,605
Mizuho Financial Group, Inc.	153,473	280,270
National Australia Bank Ltd.	11,685	265,750
Nordea Bank AB	22,555	287,001
Oversea-Chinese Banking Corp., Ltd.	38,955	305,302
People's United Financial, Inc.	16,356	288,847
PNC Financial Services Group, Inc.	2,267	283,080
Royal Bank of Canada	4,188	304,089
Skandinaviska Enskilda Banken AB "A"	23,993	290,205
Societe Generale SA	5,168	278,073
Sumitomo Mitsui Financial Group, Inc.	7,600	295,891
SunTrust Banks, Inc.	4,905	278,212
Svenska Handelsbanken AB "A"	20,000	286,301
Swedbank AB "A"	11,922	290,525
Toronto-Dominion Bank	6,131	308,961
U.S. Bancorp.	5,555	288,416
United Overseas Bank Ltd.	17,102	287,197
Wells Fargo & Co.	5,916	327,805
Westpac Banking Corp.	11,349	266,134
		12,657,066
Capital Markets 0.3%		
CME Group, Inc.	2,483	310,971
UBS Group AG (Registered)*	16,791	284,374
		595,345
Diversified Financial Services 0.2%		
Berkshire Hathaway, Inc. "B"*	1,717	**290,808**
Insurance 3.4%		
Aflac, Inc.	3,829	297,437
Ageas	6,710	270,226
Allianz SE (Registered)	1,511	297,526
Allstate Corp.	3,348	296,097
American International Group, Inc.	4,575	286,029
AXA SA	10,603	290,040
Baloise Holding AG (Registered)	1,944	300,449
Chubb Ltd.	2,031	295,267
Direct Line Insurance Group PLC	61,889	286,478
Japan Post Holdings Co., Ltd.	22,900	283,820
Legal & General Group PLC	87,820	295,447
MetLife, Inc.	5,400	296,676
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	1,451	292,589
Power Financial Corp.	11,400	292,472
Progressive Corp.	7,060	311,275
Prudential Financial, Inc.	2,663	287,977
Sampo Oyj "A"	5,731	293,704
Swiss Life Holding AG (Registered)*	877	295,961
Swiss Re AG	4,728	432,172
The Travelers Companies, Inc.	2,395	303,039
Zurich Insurance Group AG	788	229,357
		6,234,038
Thrifts & Mortgage Finance 0.1%		
New York Community Bancorp., Inc.	21,536	**282,768**
Health Care 6.6%		
Biotechnology 1.5%		
AbbVie, Inc.	6,826	494,953
Actelion Ltd. (Registered)*	819	228,686
Amgen, Inc.	2,109	363,233
Biogen, Inc.*	1,141	309,622
Celgene Corp.*	2,400	311,688
CSL Ltd.	2,332	247,402
Gilead Sciences, Inc.	6,640	469,979
Idorsia Ltd.*	819	15,459
Shire PLC	4,815	265,778
		2,706,800
Health Care Equipment & Supplies 0.8%		
Abbott Laboratories	6,412	311,687
Baxter International, Inc.	5,161	312,447
Becton, Dickinson & Co.	1,576	307,493
Medtronic PLC	3,502	310,803
Stryker Corp.	2,099	291,299
		1,533,729
Health Care Providers & Services 0.5%		
Aetna, Inc.	2,011	305,330
Anthem, Inc.	1,558	293,107
UnitedHealth Group, Inc.	1,657	307,241
		905,678

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

	Shares	Value ($)
Life Sciences Tools & Services 0.3%		
Lonza Group AG (Registered)*	1,499	324,062
Thermo Fisher Scientific, Inc.	1,683	293,633
		617,695
Pharmaceuticals 3.5%		
Allergan PLC	1,181	287,089
Astellas Pharma, Inc.	22,300	272,517
AstraZeneca PLC	4,793	320,560
Bayer AG (Registered)	2,267	293,103
Bristol-Myers Squibb Co.	5,212	290,413
Daiichi Sankyo Co., Ltd.	12,600	296,530
Eli Lilly & Co.	3,568	293,646
GlaxoSmithKline PLC	16,150	344,020
Johnson & Johnson	4,230	559,587
Merck & Co., Inc.	6,339	406,266
Mitsubishi Tanabe Pharma Corp.	12,800	295,433
Novartis AG (Registered)	5,132	427,087
Novo Nordisk AS ''B"	7,007	300,068
Orion Oyj "B"	4,662	297,651
Otsuka Holdings Co., Ltd.	6,300	268,300
Pfizer, Inc.	13,222	444,127
Roche Holding AG (Genusschein)	1,491	379,708
Sanofi	2,924	279,729
Takeda Pharmaceutical Co., Ltd.	5,900	299,472
		6,355,306
Industrials 7.4%		
Aerospace & Defense 1.1%		
BAE Systems PLC	34,519	284,817
Boeing Co.	1,176	232,554
General Dynamics Corp.	1,486	294,377
Lockheed Martin Corp.	1,109	307,869
Northrop Grumman Corp.	1,167	299,580
Raytheon Co.	1,752	282,913
United Technologies Corp.	2,389	291,721
		1,993,831
Air Freight & Logistics 0.2%		
United Parcel Service, Inc. "B"	2,686	**297,045**
Building Products 0.2%		
Johnson Controls International PLC	6,786	**294,241**
Commercial Services & Supplies 0.5%		
Republic Services, Inc.	4,677	298,065
Waste Connections, Inc.	4,650	299,553
Waste Management, Inc.	4,427	324,721
		922,339
Construction & Engineering 0.7%		
Kajima Corp.	41,000	345,570
Obayashi Corp.	28,600	335,902
Skanska AB "B"	11,900	282,362
Taisei Corp.	37,000	337,515
		1,301,349
Electrical Equipment 0.5%		
ABB Ltd. (Registered)	12,385	305,847
Eaton Corp. PLC	3,689	287,115
Emerson Electric Co.	4,900	292,138
		885,100
Industrial Conglomerates 0.7%		
3M Co.	1,961	408,261
General Electric Co.	12,449	336,247
Honeywell International, Inc.	2,606	347,354
Siemens AG (Registered)	2,003	275,328
		1,367,190

	Shares	Value ($)
Machinery 1.5%		
Caterpillar, Inc.	2,896	311,204
Cummins, Inc.	1,800	291,996
Deere & Co.	2,500	308,975
Fortive Corp.	4,500	285,075
Illinois Tool Works, Inc.	2,007	287,503
Ingersoll-Rand PLC	3,200	292,448
Kone Oyj "B"	6,216	316,216
Schindler Holding AG (Registered)	1,107	229,504
Stanley Black & Decker, Inc.	2,031	285,823
Wartsila Oyj	3,849	227,500
		2,836,244
Marine 0.2%		
Kuehne + Nagel International AG (Registered)	1,828	**305,016**
Professional Services 0.5%		
Adecco Group AG (Registered)	3,881	295,051
Nielsen Holdings PLC	7,029	271,741
SGS SA (Registered)	129	312,377
		879,169
Road & Rail 0.2%		
Union Pacific Corp.	2,627	**286,106**
Trading Companies & Distributors 1.0%		
Fastenal Co.	6,200	269,886
ITOCHU Corp.	15,939	236,517
Marubeni Corp.	45,949	296,508
Mitsubishi Corp.	11,100	232,510
Mitsui & Co., Ltd.	19,951	284,786
Sumitomo Corp.	20,866	271,226
W.W. Grainger, Inc.	1,479	267,004
		1,858,437
Transportation Infrastructure 0.1%		
Macquarie Infrastructure Corp.	3,600	**282,240**
Information Technology 11.1%		
Communications Equipment 0.9%		
Cisco Systems, Inc.	9,535	298,446
Harris Corp.	2,649	288,953
Juniper Networks, Inc.	9,372	261,291
Motorola Solutions, Inc.	3,430	297,518
Nokia Oyj	83,621	511,444
		1,657,652
Electronic Equipment, Instruments & Components 0.8%		
Avnet, Inc.	7,553	293,661
Corning, Inc.	9,821	295,121
FLIR Systems, Inc.	7,700	266,882
Kyocera Corp.	4,900	283,435
TE Connectivity Ltd.	3,754	295,365
		1,434,464
Internet Software & Services 2.0%		
Alibaba Group Holding Ltd. (ADR)*	2,900	408,610
Alphabet, Inc. "A"*	400	371,872
Alphabet, Inc. "C"*	500	454,365
Baidu, Inc. (ADR)*	1,600	286,176
eBay, Inc.*	10,460	365,263
Facebook, Inc. "A"*	2,900	437,842
NetEase, Inc. (ADR)	1,000	300,630
Tencent Holdings Ltd. (ADR)	14,300	514,228
VeriSign, Inc.*	3,200	297,472
Yahoo Japan Corp.	67,100	291,726
		3,728,184

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

	Shares	Value ($)
IT Services 2.2%		
Accenture PLC "A"	2,486	307,468
Automatic Data Processing, Inc.	2,986	305,946
Broadridge Financial Solutions, Inc.	4,200	317,352
DXC Technology Co.	3,627	278,263
Fidelity National Information Services, Inc.	3,401	290,445
Fiserv, Inc.*	2,396	293,127
Infosys Ltd. (ADR)	31,400	471,628
International Business Machines Corp.	2,623	403,496
Mastercard, Inc. "A"	2,500	303,625
Paychex, Inc.	4,923	280,316
PayPal Holdings, Inc.*	5,800	311,286
Visa, Inc. "A"	2,365	221,790
Western Union Co.	14,609	278,301
		4,063,043
Semiconductors & Semiconductor Equipment 2.1%		
Analog Devices, Inc.	3,769	293,228
Applied Materials, Inc.	6,900	285,039
Broadcom Ltd.	1,251	291,546
Intel Corp.	11,960	403,530
KLA-Tencor Corp.	2,821	258,150
Lam Research Corp.	1,959	277,061
Maxim Integrated Products, Inc.	6,254	280,805
Microchip Technology, Inc.	3,738	288,499
NVIDIA Corp.	1,500	216,840
QUALCOMM, Inc.	5,415	299,016
Texas Instruments, Inc.	3,621	278,563
Tokyo Electron Ltd.	2,100	283,050
Xilinx, Inc.	4,400	283,008
		3,738,335
Software 1.8%		
Activision Blizzard, Inc.	5,283	304,142
Adobe Systems, Inc.*	2,100	297,024
CA, Inc.	8,785	302,819
Dell Technologies, Inc. "V"*	4,229	258,434
Electronic Arts, Inc.*	2,026	214,189
Intuit, Inc.	2,300	305,463
Microsoft Corp.	6,174	425,574
Oracle Corp.	7,701	386,128
salesforce.com, Inc.*	2,500	216,500
SAP SE	2,774	289,743
VMware, Inc. "A"* (a)	3,024	264,389
		3,264,405
Technology Hardware, Storage & Peripherals 1.3%		
Apple, Inc.	2,883	415,210
Canon, Inc.	8,474	287,502
FUJIFILM Holdings Corp.	7,500	269,393
Hewlett Packard Enterprise Co.	15,100	250,509
HP, Inc.	14,754	257,900
Samsung Electronics Co., Ltd. (GDR)	358	370,530
Seagate Technology PLC	6,700	259,625
Xerox Corp.	10,043	288,535
		2,399,204
Materials 1.9%		
Chemicals 1.4%		
Air Products & Chemicals, Inc.	2,000	286,120
BASF SE	2,928	271,182
Dow Chemical Co.	4,596	289,870
E.I. du Pont de Nemours & Co.	3,576	288,619
GEO Specialty Chemicals, Inc.*	19,324	7,322

	Shares	Value ($)
Givaudan SA (Registered)	145	290,030
LyondellBasell Industries NV "A"	3,554	299,922
Monsanto Co.	2,000	236,720
Praxair, Inc.	2,207	292,538
Syngenta AG (Registered)	611	282,912
		2,545,235
Containers & Packaging 0.1%		
International Paper Co.	5,355	**303,146**
Metals & Mining 0.2%		
POSCO (ADR)	4,900	**306,691**
Paper & Forest Products 0.2%		
UPM-Kymmene Oyj	10,701	**305,065**
Real Estate 1.2%		
Equity Real Estate Investment Trusts (REITs) 1.1%		
AvalonBay Communities, Inc.	1,439	276,533
Crown Castle International Corp.	2,978	298,336
Prologis, Inc.	5,200	304,928
Public Storage	1,400	291,942
Realty Income Corp.	5,125	282,797
Ventas, Inc.	4,500	312,660
Welltower, Inc.	3,200	239,520
		2,006,716
Real Estate Management & Development 0.1%		
Immofinanz AG*	404	923
Swiss Prime Site AG (Registered)*	3,242	294,481
		295,404
Telecommunication Services 4.9%		
Diversified Telecommunication Services 3.5%		
AT&T, Inc.	12,573	474,379
BCE, Inc.	6,804	306,411
Bezeq Israeli Telecommunication Corp., Ltd.	134,131	222,854
BT Group PLC	71,996	276,391
Deutsche Telekom AG (Registered)	15,545	279,104
Elisa Oyj	7,900	306,150
HKT Trust & HKT Ltd. "SS", (Units)	232,683	305,776
Nippon Telegraph & Telephone Corp.	6,500	306,868
Orange SA	17,370	275,566
Proximus SA	8,747	306,005
PT Telekomunikasi Indonesia Tbk (ADR)	9,200	309,764
Singapore Telecommunications Ltd.	111,045	313,757
Spark New Zealand Ltd.	111,289	308,269
Swisscom AG (Registered)	684	330,052
Telefonica Deutschland Holding AG	46,957	234,532
Telefonica SA (a)	24,959	257,645
Telenor ASA	17,919	297,264
Telia Co. AB	67,061	308,770
Telstra Corp., Ltd.	89,735	296,572
TELUS Corp.	8,532	294,554
Verizon Communications, Inc.	10,071	449,771
		6,460,454
Wireless Telecommunication Services 1.4%		
America Movil SAB de CV "L", (ADR)	18,600	296,112
China Mobile Ltd. (ADR)	8,300	440,647
KDDI Corp.	11,000	290,954
NTT DoCoMo, Inc.	11,869	279,854
Rogers Communications, Inc. "B"	6,207	293,167
T-Mobile U.S., Inc.*	4,300	260,666

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

	Shares	Value ($)
Tele2 AB "B"	26,979	282,449
Vodafone Group PLC	127,480	361,544
		2,505,393

Utilities 4.0%

Electric Utilities 2.5%		
American Electric Power Co., Inc.	4,254	295,526
Duke Energy Corp.	3,395	283,788
Edison International	3,579	279,842
Endesa SA	11,482	264,513
Entergy Corp.	3,691	283,358
Eversource Energy	4,823	292,804
Exelon Corp.	8,300	299,381
FirstEnergy Corp.	9,800	285,768
Fortum Oyj	14,113	221,316
Korea Electric Power Corp. (ADR)	21,900	393,543
NextEra Energy, Inc.	2,100	294,273
PG&E Corp.	4,225	280,413
PPL Corp.	7,346	283,996
Southern Co.	5,679	271,911
SSE PLC	15,235	288,316
Xcel Energy, Inc.	6,325	290,191
		4,608,939
Multi-Utilities 1.5%		
Ameren Corp.	5,201	284,339
CenterPoint Energy, Inc.	10,289	281,713
Consolidated Edison, Inc.	3,582	289,497
Dominion Energy, Inc.	3,640	278,933
DTE Energy Co.	2,727	288,489
National Grid PLC	19,674	243,893
Public Service Enterprise Group, Inc.	6,584	283,178
SCANA Corp.	4,330	290,153
Sempra Energy	2,500	281,875
WEC Energy Group, Inc.	4,671	286,706
		2,808,776
Total Common Stocks (Cost $100,310,538)		**114,793,282**

Preferred Stock 0.1%

Consumer Discretionary

Bayerische Motoren Werke (BMW) AG (Cost $231,614)	2,813	**231,905**

Right 0.0%

Consumer Staples

Safeway Casa Ley, Expiration Date 1/30/2018* (Cost $7,611)	7,499	**7,611**

Warrant 0.0%

Materials

Hercules Trust II, Expiration Date 3/31/2029* (Cost $30,283)	170	**5,636**

	Principal Amount ($)(b)	Value ($)

Corporate Bonds 10.6%

Consumer Discretionary 1.6%

	Principal Amount ($)(b)	Value ($)
Adient Global Holdings Ltd., 144A, 4.875%, 8/15/2026	350,000	350,875
Altice Financing SA, 144A, 7.5%, 5/15/2026	400,000	444,000
American Axle & Manufacturing, Inc., 144A, 6.25%, 4/1/2025 (a)	350,000	341,250
CCO Holdings LLC, 144A, 5.875%, 5/1/2027	500,000	534,375
Charter Communications Operating LLC:		
3.579%, 7/23/2020	40,000	41,335
4.908%, 7/23/2025	30,000	32,409
Churchill Downs, Inc., 5.375%, 12/15/2021	28,000	29,050
CSC Holdings LLC:		
144A, 5.5%, 4/15/2027	400,000	423,000
144A, 10.125%, 1/15/2023	200,000	232,000
CVS Health Corp., 5.125%, 7/20/2045	50,000	57,320
General Motors Co., 6.6%, 4/1/2036	30,000	34,759
Nordstrom, Inc.:		
4.0%, 3/15/2027	65,000	63,606
5.0%, 1/15/2044	100,000	95,277
Viacom, Inc.:		
5.875%, 2/28/2057	60,000	62,400
6.25%, 2/28/2057	65,000	67,600
Walgreens Boots Alliance, Inc., 4.8%, 11/18/2044	40,000	42,566
		2,851,822

Consumer Staples 0.2%

Kraft Heinz Foods Co., 4.375%, 6/1/2046	210,000	205,660
Molson Coors Brewing Co., 4.2%, 7/15/2046	40,000	39,447
Reckitt Benckiser Treasury Services PLC, 144A, 3.0%, 6/26/2027	200,000	197,355
		442,462

Energy 3.5%

Canadian Natural Resources Ltd.:		
3.85%, 6/1/2027	70,000	69,433
4.95%, 6/1/2047	60,000	60,894
Continental Resources, Inc., 5.0%, 9/15/2022	200,000	196,250
Empresa Nacional del Petroleo, 144A, 3.75%, 8/5/2026	400,000	397,880
Enbridge, Inc., 5.5%, 12/1/2046	60,000	67,111
Energy Transfer LP, 5.95%, 10/1/2043	30,000	31,781
EnLink Midstream Partners LP, 5.45%, 6/1/2047	90,000	89,738
Halliburton Co., 4.85%, 11/15/2035	45,000	48,110
Hess Corp.:		
5.6%, 2/15/2041	135,000	132,714
5.8%, 4/1/2047	75,000	75,624
Hilcorp Energy I LP, 144A, 5.75%, 10/1/2025	200,000	188,500
KazMunayGas National Co. JSC, 144A, 3.875%, 4/19/2022	700,000	692,720
Kinder Morgan Energy Partners LP, 4.7%, 11/1/2042	110,000	103,849
Lukoil International Finance BV, 144A, 6.656%, 6/7/2022	500,000	561,150
Marathon Oil Corp., 5.2%, 6/1/2045	90,000	86,289
MEG Energy Corp., 144A, 6.5%, 1/15/2025 (a)	200,000	182,000
Noble Holding International Ltd.:		
5.75%, 3/16/2018	10,000	10,061
7.75%, 1/15/2024 (a)	100,000	79,125

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

	Principal Amount ($)(b)	Value ($)
Oasis Petroleum, Inc., 6.875%, 3/15/2022 (a)	100,000	97,000
Pertamina Persero PT, 144A, 5.25%, 5/23/2021	800,000	866,166
Petroleos Mexicanos, REG S, 3.75%, 2/21/2024 EUR	600,000	709,407
Plains All American Pipeline LP:		
2.85%, 1/31/2023	55,000	53,356
4.3%, 1/31/2043	95,000	81,286
4.5%, 12/15/2026	150,000	151,702
Regency Energy Partners LP, 4.5%, 11/1/2023	40,000	41,505
State Oil Co. of The Azerbaijan Republic, REG S, 4.75%, 3/13/2023	700,000	672,868
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	40,000	38,995
Transcanada Trust, 5.3%, 3/15/2077	280,000	287,840
Weatherford International Ltd., 144A, 9.875%, 2/15/2024	100,000	104,500
WPX Energy, Inc., 6.0%, 1/15/2022	200,000	198,000
		6,375,854
Financials 2.2%		
Akbank TAS, 144A, 5.0%, 10/24/2022	750,000	747,660
Ares Capital Corp., 3.625%, 1/19/2022	60,000	60,694
Blackstone Holdings Finance Co., LLC, 144A, 5.0%, 6/15/2044	20,000	21,758
BNP Paribas SA, 144A, 4.625%, 3/13/2027	310,000	326,899
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	50,000	51,468
FS Investment Corp., 4.75%, 5/15/2022	70,000	71,876
HSBC Holdings PLC, 4.375%, 11/23/2026	200,000	207,524
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	30,000	31,739
Legg Mason, Inc., 5.625%, 1/15/2044	50,000	53,106
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	10,000	10,115
Morgan Stanley, 6.25%, 8/9/2026	600,000	718,279
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	40,000	45,488
Royal Bank of Scotland Group PLC, 3.498%, 5/15/2023	200,000	201,297
Santander Holdings U.S.A., Inc., 144A, 3.7%, 3/28/2022	215,000	217,779
Standard Chartered PLC, 144A, 4.05%, 4/12/2026	200,000	203,355
Swiss Re Treasury U.S. Corp., 144A, 4.25%, 12/6/2042	30,000	30,846
TC Ziraat Bankasi AS, 144A, 5.125%, 5/3/2022	200,000	200,654
The Goldman Sachs Group, Inc., 2.922%**, 10/28/2027	750,000	779,645
Voya Financial, Inc., 4.8%, 6/15/2046	45,000	46,872
		4,027,054
Health Care 0.2%		
Allergan Funding SCS, 4.75%, 3/15/2045	9,000	9,715
Celgene Corp., 5.0%, 8/15/2045	30,000	33,780
Express Scripts Holding Co.:		
3.4%, 3/1/2027	65,000	62,733
4.8%, 7/15/2046	50,000	50,859
Gilead Sciences, Inc., 4.15%, 3/1/2047	40,000	40,186
Mylan NV, 5.25%, 6/15/2046	55,000	60,164
Stryker Corp., 4.625%, 3/15/2046	40,000	43,700
		301,137
Industrials 0.1%		
FedEx Corp., 4.55%, 4/1/2046	30,000	31,513
Park Aerospace Holdings Ltd., 144A, 5.25%, 8/15/2022	175,000	182,931
		214,444
Information Technology 0.4%		
Dell International LLC:		
144A, 4.42%, 6/15/2021	200,000	210,844
144A, 8.1%, 7/15/2036	30,000	37,707
DXC Technology Co., 144A, 4.75%, 4/15/2027	315,000	328,445
Seagate HDD Cayman:		
144A, 4.25%, 3/1/2022	90,000	91,483
5.75%, 12/1/2034	50,000	50,020
Xilinx, Inc., 2.95%, 6/1/2024	95,000	95,256
		813,755
Materials 0.8%		
AK Steel Corp., 7.0%, 3/15/2027 (a)	200,000	206,500
CF Industries, Inc.:		
144A, 3.4%, 12/1/2021	180,000	181,987
144A, 4.5%, 12/1/2026	20,000	20,563
Chemours Co., 6.625%, 5/15/2023	350,000	370,125
Constellium NV, 144A, 6.625%, 3/1/2025	250,000	239,375
Evraz Group SA, 144A, 5.375%, 3/20/2023	300,000	300,900
Glencore Funding LLC, 144A, 4.625%, 4/29/2024	20,000	20,908
Potash Corp. of Saskatchewan, Inc., 4.0%, 12/15/2026	85,000	87,645
		1,428,003
Real Estate 0.4%		
CBL & Associates LP:		
(REIT), 5.25%, 12/1/2023 (a)	70,000	68,283
(REIT), 5.95%, 12/15/2026 (a)	120,000	118,827
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	220,000	235,820
Host Hotels & Resorts LP, (REIT), 3.875%, 4/1/2024	100,000	101,721
Omega Healthcare Investors, Inc.:		
(REIT), 4.75%, 1/15/2028	110,000	109,813
(REIT), 4.95%, 4/1/2024	60,000	62,843
Select Income REIT:		
(REIT), 4.15%, 2/1/2022	60,000	60,487
(REIT), 4.25%, 5/15/2024	45,000	44,598
		802,392
Telecommunication Services 0.4%		
AT&T, Inc.:		
3.4%, 5/15/2025	150,000	147,463
4.5%, 5/15/2035	105,000	103,298
Sprint Spectrum Co., LLC, 144A, 3.36%, 3/20/2023	200,000	201,750
Telefonica Emisiones SAU, 5.213%, 3/8/2047	150,000	161,960

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

	Principal Amount ($)(b)	Value ($)
Verizon Communications, Inc., 4.272%, 1/15/2036	75,000	72,387
		686,858
Utilities 0.8%		
Electricite de France SA, 144A, 4.75%, 10/13/2035	95,000	101,471
Eskom Holdings SOC Ltd., 144A, 6.75%, 8/6/2023	700,000	713,790
Great Plains Energy, Inc., 4.85%, 4/1/2047	65,000	66,884
NRG Energy, Inc., 6.25%, 7/15/2022	500,000	513,125
Southern Power Co., Series F, 4.95%, 12/15/2046	29,000	29,947
		1,425,217
Total Corporate Bonds (Cost $19,154,214)		**19,368,998**

Asset-Backed 0.6%

Miscellaneous

Dell Equipment Finance Trust:		
"C", Series 2017-1, 144A, 2.95%, 4/22/2022	130,000	130,107
"D", Series 2017-1, 144A, 3.44%, 4/24/2023	280,000	280,200
Domino's Pizza Master Issuer LLC, "A23", Series 2017-1A, 144A, 4.118%, 7/25/2047 (c)	340,000	339,787
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	192,947	190,694
PennyMac LLC, "A1", Series 2015-NPL1, 144A, 4.0%, 3/25/2055	149,597	150,289
Total Asset-Backed (Cost $1,092,344)		**1,091,077**

Mortgage-Backed Securities Pass-Throughs 0.0%

Federal Home Loan Mortgage Corp., 6.0%, 3/1/2038	4,119	4,628
Federal National Mortgage Association:		
4.5%, 9/1/2035	13,927	14,992
6.0%, 1/1/2024	15,119	16,998
Total Mortgage-Backed Securities Pass-Throughs (Cost $32,855)		**36,618**

Commercial Mortgage-Backed Securities 1.0%

Credit Suisse First Boston Mortgage Securities Corp., "G", Series 2005-C6, 144A, 5.115%**, 12/15/2040	157,444	158,010
CSAIL Commercial Mortgage Trust, "A4", Series 2015-C4, 3.808%, 11/15/2048	300,000	313,532
FHLMC Multifamily Structured Pass-Through Certificates, "X1", Series K043, Interest Only, 0.675%***, 12/25/2024	4,966,172	172,933
GMAC Commercial Mortgage Securities, Inc., "G", Series 2004-C1, 144A, 5.455%, 3/10/2038	502,641	494,055

	Principal Amount ($)(b)	Value ($)
JPMBB Commercial Mortgage Securities Trust:		
"A4", Series 2015-C28, 3.227%, 10/15/2048	450,000	454,867
"A3", Series 2014-C19, 3.669%, 4/15/2047	125,000	129,912
Total Commercial Mortgage-Backed Securities (Cost $1,726,690)		**1,723,309**

Collateralized Mortgage Obligations 1.6%

Fannie Mae Connecticut Avenue Securities, "1M1", Series 2016-C02, 3.174%**, 9/25/2028	436,871	443,119
Federal Home Loan Mortgage Corp.:		
"HI", Series 3979, Interest Only, 3.0%, 12/15/2026	303,995	24,849
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	423,325	40,604
"H", Series 4865, 4.0%, 8/15/2044	990,889	1,051,272
"LI", Series 3720, Interest Only, 4.5%, 9/15/2025	592,306	65,089
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	277,663	23,298
"C31", Series 303, Interest Only, 4.5%, 12/15/2042	1,344,558	264,761
"H", Series 2278, 6.5%, 1/15/2031	124	128
Federal National Mortgage Association:		
"WO", Series 2013-27, Principal Only, Zero Coupon, 12/25/2042	220,000	142,545
"4", Series 406, Interest Only, 4.0%, 9/25/2040	116,348	22,619
"I", Series 2003-84, Interest Only, 6.0%, 9/25/2033	126,660	22,309
Government National Mortgage Association:		
"QI", Series 2011-112, Interest Only, 4.0%, 5/16/2026	222,236	22,275
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	313,544	41,262
"NI", Series 2011-80, Interest Only, 4.5%, 5/16/2038	68,680	332
"BI", Series 2010-30, Interest Only, 4.5%, 7/20/2039	45,908	5,112
"ND", Series 2010-130, 4.5%, 8/16/2039	600,000	632,441
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	80,345	13,531
"IP", Series 2014-11, Interest Only, 4.5%, 1/20/2043	217,750	33,633
"IQ", Series 2011-18, Interest Only, 5.5%, 1/16/2039	97,719	9,633
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	237,399	43,063
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	229,700	38,734
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	177,741	30,606
Total Collateralized Mortgage Obligations (Cost $2,771,705)		**2,971,215**

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

		Principal Amount ($)(b)	Value ($)
Government & Agency Obligations 11.6%			
Other Government Related (d) 0.8%			
Sberbank of Russia, 144A, 5.125%, 10/29/2022		700,000	721,000
Vnesheconombank, 144A, 6.025%, 7/5/2022		700,000	749,987
			1,470,987
Sovereign Bonds 3.8%			
Export Credit Bank of Turkey, 144A, 5.375%, 10/24/2023		700,000	707,000
Export-Import Bank of India, 144A, 3.375%, 8/5/2026		1,000,000	978,968
Government of Indonesia, Series FR56, 8.375%, 9/15/2026	IDR	21,340,000,000	1,766,124
Mexican Udibonos Inflation-Linked Bond, Series S, 2.0%, 6/9/2022	MXN	8,648,976	452,713
Republic of Angola, 144A, 9.5%, 11/12/2025		450,000	473,805
Republic of Hungary, Series 19/A, 6.5%, 6/24/2019	HUF	16,900,000	70,203
Republic of Namibia:			
144A, 5.25%, 10/29/2025		250,000	257,238
144A, 5.5%, 11/3/2021		600,000	645,702
Republic of Portugal, 144A, 5.125%, 10/15/2024		400,000	408,000
Republic of Senegal, 144A, 6.25%, 7/30/2024		500,000	526,620
United Mexican States, Series M, 5.75%, 3/5/2026	MXN	13,525,200	695,713
			6,982,086
U.S. Treasury Obligations 7.0%			
U.S. Treasury Bill:			
0.59%****, 8/10/2017 (e)		1,620,000	1,618,510
0.87%****, 8/10/2017 (e)		87,000	86,920
U.S. Treasury Bonds:			
3.0%, 5/15/2047		200,000	206,406
3.625%, 2/15/2044		85,000	97,946
5.375%, 2/15/2031		571,000	767,415
U.S. Treasury Notes:			
0.75%, 10/31/2017 (f)		3,056,000	3,052,516
0.75%, 4/30/2018		6,000,000	5,973,750
2.375%, 5/15/2027		900,000	905,694
			12,709,157
Total Government & Agency Obligations (Cost $20,870,980)			**21,162,230**

	Principal Amount ($)(b)	Value ($)
Municipal Bonds and Notes 0.0%		
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (Cost $64,810)	64,810	**65,344**
Convertible Bond 0.1%		
Materials		
GEO Specialty Chemicals, Inc., 144A, 7.5%, 10/30/2018 (PIK) (Cost $232,575)	234,338	**231,288**

	Shares	Value ($)
Exchange-Traded Funds 9.3%		
iShares iBoxx $ High Yield Corporate Bond ETF (a)	40,000	3,535,600
SPDR Bloomberg Barclays High Yield Bond ETF (a)	235,800	8,771,760
VanEck Vectors JPMorgan EM Local Currency Bond ETF	253,324	4,785,290
Total Exchange-Traded Funds (Cost $15,975,873)		**17,092,650**
Closed-End Investment Company 0.2%		
Altaba, Inc.* (Cost $254,810)	5,800	**315,984**
Securities Lending Collateral 8.0%		
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (g) (h) (Cost $14,709,220)	14,709,220	**14,709,220**
Cash Equivalents 2.5%		
Deutsche Central Cash Management Government Fund, 1.03% (g) (Cost $4,512,312)	4,512,312	**4,512,312**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $181,978,434)†	108.2	**198,318,679**
Other Assets and Liabilities, Net	(8.2)	**(14,945,364)**
Net Assets	100.0	**183,373,315**

* 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, 2017.

*** These securities are shown at their current rate as of June 30, 2017.

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

† The cost for federal income tax purposes was $182,462,229. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $15,856,450. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $18,796,817 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,940,367.

(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, 2017 amounted to $14,365,471, which is 7.8% of net assets.

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

(c) When-issued security

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

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

(e) At June 30, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At June 30, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements 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.

ADR: American Depositary Receipt

EM: Emerging Markets

GDR: Global Depositary Receipt

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.

JSC: Joint Stock Company

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

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

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

REIT: Real Estate Investment Trust

RSP: Risparmio (Convertible Savings Shares)

SPDR: Standard & Poor's Depositary Receipt

At June 30, 2017, open futures contracts purchased were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized Appreciation/ (Depreciation) ($)**
10 Year Australian Treasury Bond	AUD	9/15/2017	26	2,583,075	(34,943)
10 Year U.S. Treasury Note	USD	9/20/2017	37	4,644,656	(11,138)
3 Month Euro Euribor Interest Rate Futures	EUR	3/19/2018	10	2,862,513	412
3 Month Euro Swiss Franc (Euroswiss) Interest Rate Futures	CHF	3/19/2018	11	2,886,797	(4,606)
3 Month Euroyen Futures	JPY	3/19/2018	12	2,666,326	898
90 Day Eurodollar	USD	3/19/2018	11	2,707,100	5,047
90 Day Sterling Interest Rate Futures	GBP	3/21/2018	17	2,751,653	(3,346)
ASX 90 Day Bank Accepted Bills	AUD	3/8/2018	15	11,476,928	3,368
Euro Stoxx 50 Index	EUR	9/15/2017	136	5,329,453	(220,461)
Euro Stoxx Mid Index	EUR	9/15/2017	170	4,118,249	(138,964)
Mini MSCI Emerging Market Index	USD	9/15/2017	115	5,797,725	(53,183)
U.S. Treasury Long Bond	USD	9/20/2017	19	2,920,063	4,078
Ultra 10 Year U.S. Treasury Note	USD	9/20/2017	30	4,044,375	(25,571)
Ultra Long U.S. Treasury Bond	USD	9/20/2017	14	2,322,250	20,689
Total net unrealized depreciation					**(457,720)**

At June 30, 2017, open futures contracts sold were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized Appreciation ($)**
2 Year U.S. Treasury Note	USD	9/29/2017	75	16,208,203	5,712
5 Year U.S. Treasury Note	USD	9/29/2017	76	8,955,531	11,734
S&P 500 E-Mini Index	USD	9/15/2017	79	9,562,555	35,339
Total unrealized appreciation					**52,785**

At June 30, 2017, open credit default swap contracts sold were as follows:

Centrally Cleared Swaps

Expiration Date	**Notional Amount ($) (i)**	**Fixed Cash Flows Received**	**Underlying Reference Obligation**	**Value ($)**	**Unrealized Appreciation ($)**
6/20/2022	5,430,000	5.0%	Markit CDX North America High Yield Index	384,595	0

(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, 2017, 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) ($)
9/20/2017 9/20/2047	2,800,000	Fixed — 2.5%	Floating — 3-Month LIBOR	45,067	(29,041)
9/20/2017 9/20/2027	12,600,000	Fixed — 2.5%	Floating — 3-Month LIBOR	(231,250)	(106,088)
9/20/2017 9/20/2022	11,800,000	Floating — 3-Month LIBOR	Fixed — 2.0%	3,672	45,836
9/20/2017 9/20/2018	1,900,000	Fixed — 1.5%	Floating — 3-Month LIBOR	489	(805)
9/20/2017 9/20/2037	200,000	Fixed — 2.5%	Floating — 3-Month LIBOR	1,343	(1,821)
Total net unrealized depreciation					**(91,919)**

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at June 30, 2017 is 1.30%.

As of June 30, 2017, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	4,931,844	EUR	4,600,000	7/3/2017	322,044	Goldman Sachs & Co.
USD	3,569,281	EUR	3,269,000	7/26/2017	168,421	Toronto-Dominion Bank
USD	3,547,698	GBP	2,741,000	7/26/2017	24,702	Citigroup, Inc.
USD	3,716,551	MXN	70,190,000	7/27/2017	137,439	Citigroup, Inc.
USD	4,884,062	EUR	4,450,000	8/10/2017	207,879	Bank of America
USD	4,968,759	EUR	4,450,000	8/10/2017	123,182	Citigroup, Inc.
USD	3,802,925	AUD	5,000,000	8/21/2017	37,794	Australia & New Zealand Banking Group Ltd.
JPY	413,600,000	USD	3,730,428	8/21/2017	45,937	Credit Agricole
USD	9,734,176	EUR	8,600,000	8/23/2017	113,018	BNP Paribas
USD	7,210,703	GBP	5,680,000	9/6/2017	201,308	Goldman Sachs & Co.
USD	1,741,339	MXN	32,147,191	9/12/2017	10,904	Citigroup, Inc.
USD	3,504,124	GBP	2,750,000	9/21/2017	86,169	Toronto-Dominion Bank
Total unrealized appreciation					**1,478,797**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
EUR	4,600,000	USD	4,957,512	7/3/2017	(296,376)	Goldman Sachs & Co.
MXN	45,000,000	USD	2,398,018	7/20/2017	(75,585)	Toronto-Dominion Bank
EUR	600,000	USD	654,059	7/26/2017	(31,967)	Citigroup, Inc.
GBP	2,741,000	USD	3,514,566	7/26/2017	(57,835)	BNP Paribas
EUR	3,269,000	USD	3,582,517	7/26/2017	(155,185)	JPMorgan Chase Securities, Inc.
MXN	70,190,000	USD	3,664,499	7/27/2017	(189,490)	Citigroup, Inc.
USD	4,907,101	JPY	548,000,000	8/9/2017	(27,781)	Citigroup, Inc.
JPY	548,000,000	USD	4,879,091	8/9/2017	(228)	Toronto-Dominion Bank
EUR	8,900,000	USD	9,762,188	8/10/2017	(421,694)	Toronto-Dominion Bank
USD	4,469,926	JPY	496,865,075	8/21/2017	(43,682)	JPMorgan Chase Securities, Inc.
AUD	5,000,000	USD	3,693,270	8/21/2017	(147,449)	JPMorgan Chase Securities, Inc.
EUR	4,300,000	USD	4,827,966	8/23/2017	(95,631)	BNP Paribas
EUR	4,300,000	USD	4,842,931	8/23/2017	(80,666)	Citigroup, Inc.
GBP	5,680,000	USD	7,337,679	9/6/2017	(74,332)	Citigroup, Inc.
GBP	2,750,000	USD	3,519,662	9/21/2017	(70,632)	Citigroup, Inc.
Total unrealized depreciation					**(1,768,533)**	

Currency Abbreviations

AUD	Australian Dollar	GBP	British Pound	JPY	Japanese Yen
CHF	Swiss Franc	HUF	Hungarian Forint	MXN	Mexican Peso
EUR	Euro	IDR	Indonesian Rupiah	USD	United States Dollar

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

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

Fair Value Measurements

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

The following is a summary of the inputs used as of June 30, 2017 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stocks				
Consumer Discretionary	$ 14,132,915	$ —	$ —	$ 14,132,915
Consumer Staples	6,016,482	—	—	6,016,482
Energy	6,525,239	—	—	6,525,239
Financials	20,060,025	—	—	20,060,025
Health Care	12,119,208	—	—	12,119,208
Industrials	13,508,307	—	—	13,508,307
Information Technology	20,285,287	—	—	20,285,287
Materials	3,452,815	—	7,322	3,460,137
Real Estate	2,302,120	—	—	2,302,120
Telecommunication Services	8,742,993	222,854	—	8,965,847
Utilities	7,417,715	—	—	7,417,715
Preferred Stock	—	231,905	—	231,905
Right	—	—	7,611	7,611
Warrant	—	—	5,636	5,636
Fixed Income Investments (j)				
Corporate Bonds	—	19,368,998	—	19,368,998
Asset-Backed	—	1,091,077	—	1,091,077
Mortgage-Backed Securities Pass-Throughs	—	36,618	—	36,618
Commercial Mortgage-Backed Securities	—	1,723,309	—	1,723,309
Collateralized Mortgage Obligations	—	2,971,215	—	2,971,215
Government & Agency Obligations	—	21,162,230	—	21,162,230
Municipal Bonds and Notes	—	65,344	—	65,344
Convertible Bond	—	—	231,288	231,288
Exchange-Traded Funds	17,092,650	—	—	17,092,650
Closed-End Investment Company	315,984	—	—	315,984
Short-Term Investments (j)	19,221,532	—	—	19,221,532
Derivatives (k)				
Futures Contracts	87,277	—	—	87,277
Interest Rate Swap Contracts	—	45,836	—	45,836
Forward Foreign Currency Exchange Contracts	—	1,478,797	—	1,478,797
Total	**$151,280,549**	**$ 48,398,183**	**$ 251,857**	**$199,930,589**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (k)				
Futures Contracts	$ (492,212)	$ —	$ —	$ (492,212)
Interest Rate Swap Contracts	—	(137,755)	—	(137,755)
Forward Foreign Currency Exchange Contracts	—	(1,768,533)	—	(1,768,533)
Total	**$ (492,212)**	**$ (1,906,288)**	**$ —**	**$ (2,398,500)**

As a result of the fair valuation model utilized by the Fund, certain international securities transferred from Level 2 to Level 1. During the period ended June 30, 2017, the amount of the transfers between Level 2 and Level 1 was $40,012,612. Transfers between price levels are recognized at the beginning of the reporting year.

(j) See Investment Portfolio for additional detailed categorizations.

(k) Derivatives include unrealized appreciation (depreciation) on open futures contracts, centrally cleared swap contracts and forward foreign currency exchange contracts.

Statement of Assets and Liabilities

as of June 30, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $162,756,902) — including $14,365,471 of securities loaned	$	179,097,147
Investment in Deutsche Government & Agency Securities Portfolio (cost $14,709,220)*		14,709,220
Investments in Deutsche Central Cash Management Government Fund (cost $4,512,312)		4,512,312
Total investments in securities, at value (cost $181,978,434)		198,318,679
Cash		52,900
Foreign currency, at value (cost $294,352)		299,890
Cash held as collateral for forward foreign currency exchange contracts		123,525
Receivable for investments sold		272,303
Receivable for Fund shares sold		182,896
Dividends receivable		246,521
Interest receivable		472,761
Net receivable for pending swap contracts		220,883
Unrealized appreciation on forward foreign currency exchange contracts		1,478,797
Foreign taxes recoverable		124,332
Other assets		1,702
Total assets		201,795,189
Liabilities		
Payable upon return of securities loaned		14,709,220
Payable for investments purchased		302,298
Payable for investments purchased — when-issued security		340,000
Payable for Fund shares redeemed		518,149
Payable for variation margin on futures contracts		237,808
Payable for variation margin on centrally cleared swaps		206,974
Payable upon return of deposit for forward foreign currency contracts		123,525
Unrealized depreciation on forward foreign currency exchange contracts		1,768,533
Accrued management fee		56,369
Accrued Trustees' fees		2,613
Other accrued expenses and payables		156,385
Total liabilities		18,421,874
Net assets, at value	**$**	**183,373,315**
Net Assets Consist of		
Undistributed net investment income		1,222,441
Net unrealized appreciation (depreciation) on:		
Investments		16,340,245
Swap contracts		(91,919)
Futures		(404,935)
Foreign currency		(280,952)
Accumulated net realized gain (loss)		2,410,909
Paid-in capital		164,177,526
Net assets, at value	**$**	**183,373,315**
Class A		
Net Asset Value, offering and redemption price per share ($183,373,315 ÷ 7,486,792 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**24.49**

* Represents collateral on securities loaned.

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

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $124,922)	$ 2,354,270
Interest (net of foreign taxes withheld of $5,030)	980,024
Income distributions — Deutsche Central Cash Management Government Fund	10,189
Securities lending income, net of borrower rebates	46,077
Total income	3,390,560
Expenses:	
Management fee	341,376
Administration fee	92,264
Services to shareholders	728
Custodian fee	28,138
Professional fees	50,042
Reports to shareholders	28,231
Trustees' fees and expenses	8,052
Other	30,016
Total expenses	578,847
Net investment income	**2,811,713**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	5,822,993
Swap contracts	1,577,379
Futures	649,748
Written options	6,800
Foreign currency	600,452
	8,657,372
Change in net unrealized appreciation (depreciation) on:	
Investments	5,158,972
Swap contracts	(1,537,727)
Futures	(189,664)
Foreign currency	(1,462,010)
	1,969,571
Net gain (loss)	**10,626,943**
Net increase (decrease) in net assets resulting from operations	**$ 13,438,656**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income	$ 2,811,713	$ 5,058,747
Net realized gain (loss)	8,657,372	(200,045)
Change in net unrealized appreciation (depreciation)	1,969,571	7,339,499
Net increase (decrease) in net assets resulting from operations	13,438,656	12,198,201
Distributions to shareholders from:		
Net investment income: Class A	(5,628,068)	(7,851,269)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,712,866	3,626,943
Shares issued to shareholders in reinvestment of distributions	5,628,068	7,851,269
Payments for shares redeemed	(16,798,252)	(32,401,979)
Net increase (decrease) in net assets from Class A share transactions	(9,457,318)	(20,923,767)
Increase (decrease) in net assets	(1,646,730)	(16,576,835)
Net assets at beginning of period	185,020,045	201,596,880
Net assets at end of period (including undistributed net investment income of $1,222,441 and $4,038,796, respectively)	**$ 183,373,315**	**$ 185,020,045**

Other Information		
Class A		
Shares outstanding at beginning of period	7,873,905	8,792,358
Shares sold	70,403	157,470
Shares issued to shareholders in reinvestment of distributions	233,530	348,017
Shares redeemed	(691,046)	(1,423,940)
Net increase (decrease) in Class A shares	(387,113)	(918,453)
Shares outstanding at end of period	7,486,792	7,873,905

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$23.50**	**$22.93**	**$24.62**	**$27.30**	**$23.90**	**$21.49**
Income (loss) from investment operations:						
Net investment income[a]	.37	.61	.68	.72	.78	.57
Net realized and unrealized gain (loss)	1.37	.91	(.97)	.25	3.14	2.20
Total from investment operations	1.74	1.52	(.29)	.97	3.92	2.77
Less distributions from:						
Net investment income	(.75)	(.95)	(.76)	(.85)	(.52)	(.36)
Net realized gains	—	—	(.64)	(2.80)	—	—
Total distributions	(.75)	(.95)	(1.40)	(3.65)	(.52)	(.36)
Net asset value, end of period	**$24.49**	**$23.50**	**$22.93**	**$24.62**	**$27.30**	**$23.90**
Total Return (%)	7.46**	6.81	(1.44)[b]	3.83	16.63	12.98
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	183	185	202	247	269	260
Ratio of expenses before expense reductions (%)[c]	.63*	.62	.60	.62	.60	.59
Ratio of expenses after expense reductions (%)[c]	.63*	.62	.58	.62	.60	.59
Ratio of net investment income (loss) (%)	3.05*	2.66	2.85	2.83	3.07	2.48
Portfolio turnover rate (%)	60**	135	92	88	182	188

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Global Income Builder VIP (the "Fund") is a diversified series of Deutsche Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, the Fund had securities on loan, which were classified as common stocks, corporate bonds and exchange-traded funds 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, 2017

	Overnight and Continuous	<30 days	Between 30 & 90 days	>90 days	Total
Securities Lending Transactions					
Common Stocks	$ 1,145,815	$ —	$ —	$ —	$ 1,145,815
Corporate Bonds	1,006,895	—	—	—	1,006,895
Exchange-Traded Fund	12,556,510	—	—	—	12,556,510
Total Borrowings	**$14,709,220**	**$ —**	**$ —**	**$ —**	**$14,709,220**
Gross amount of recognized liabilities for securities lending transactions					$14,709,220

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, 2016, the Fund had $6,015,000 of tax basis capital loss carryforwards, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($3,135,000) and long-term losses ($2,880,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $29,300,000 to $31,640,000.

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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment on the credit default swap contracts sold had a total notional value of generally indicative of a range from approximately $376,000 to $7,700,000.

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, 2017, 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 and entered into equity index futures as a means of gaining exposure to the equity asset class without investing directly into such asset class.

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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $39,622,000 to $57,111,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $5,939,000 to $34,726,000.

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, 2017, the Fund entered into options on equity index futures for non-hedging purposes to seek to enhance potential gains.

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 open written or purchased option contracts as of June 30, 2017. For the six months ended June 30, 2017, the investment in written option contracts had a total value generally indicative of a range from $0 to $96,000 and purchased option contracts with total values ranging from $0 to $122,000.

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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $53,789,000 to $74,338,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $52,767,000 to $60,988,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2017 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**
Equity Contracts (a)	$ —	$ —	$ 35,339	$ 35,339
Interest Rate Contracts (a)	—	45,836	51,938	97,774
Credit Contracts (a)	—	0	—	0
Foreign Exchange Contracts (b)	1,478,797	—	—	1,478,797
	$ 1,478,797	**$ 45,836**	**$ 87,277**	**$ 1,611,910**

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	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Equity Contracts (c)	$ —	$ —	$ (412,608)	$ (412,608)
Interest Rate Contracts (c)	—	(137,755)	(79,604)	(217,359)
Foreign Exchange Contracts (d)	(1,768,533)	—	—	(1,768,533)
	$ (1,768,533)	**$ (137,755)**	**$ (492,212)**	**$ (2,398,500)**

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

(c) 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.

(d) 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, 2017 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**
Equity Contracts (e)	$ (15,900)	$ 6,800	$ —	$ —	$ 605,989	$ 596,889
Interest Rate Contracts (e)	—	—	—	1,113,685	43,759	1,157,444
Credit Contracts (e)	—	—	—	463,694	—	463,694
Foreign Exchange Contracts (f)	—	—	567,281	—	—	567,281
	$ (15,900)	**$ 6,800**	**$ 567,281**	**$ 1,577,379**	**$ 649,748**	**$ 2,785,308**

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

(e) Net realized gain (loss) from investments (includes purchased options), written options, swap contracts and futures, respectively

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

Change in Net Unrealized Appreciation (Depreciation)	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Equity Contracts (g)	$ —	$ —	$ (357,066)	$ (357,066)
Interest Rate Contracts (g)	—	(1,291,361)	167,402	(1,123,959)
Credit Contracts (g)	—	(246,366)	—	(246,366)
Foreign Exchange Contracts (h)	(1,480,244)	—	—	(1,480,244)
	$ (1,480,244)	**$ (1,537,727)**	**$ (189,664)**	**$ (3,207,635)**

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

(g) Change in net unrealized appreciation (depreciation) on swap contracts and futures, respectively

(h) 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, 2017, the Fund has transactions subject to enforceable master netting agreements which govern the terms of certain transactions, and reduce the counterparty risk associated with such transactions. Master netting agreements allow a Fund to close out and net total exposure to a counterparty in the event of a deterioration in the credit quality or contractual default with respect to all of the transactions with a counterparty. As defined by the master netting agreement, the Fund may have collateral agreements with certain counterparties to mitigate risk. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivatives assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by a 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 (i)	Non-Cash Collateral Received	Net Amount of Derivative Assets
Australia & New Zealand Banking Group Ltd.	$ 37,794	$ —	$ —	$ —	$ 37,794
Bank of America	207,879	—	—	—	207,879
BNP Paribas	113,018	(113,018)	—	—	—
Citigroup, Inc.	296,227	(296,227)	0	—	—
Credit Agricole	45,937	—	—	—	45,937
Goldman Sachs & Co.	523,352	(296,376)	—	—	226,976
Toronto-Dominion Bank	254,590	(254,590)	—	—	—
	$ 1,478,797	**$ (960,211)**	**$ —**	**$ —**	**$ 518,586**

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	Net Amount of Derivative Liabilities
BNP Paribas	$ 153,466	$ (113,018)	$ —	$ —	$ 40,448
Citigroup, Inc	474,868	(296,227)	—	—	178,641
Goldman Sachs & Co.	296,376	(296,376)	—	—	—
JPMorgan Chase Securities, Inc.	346,316	—	—	—	346,316
Toronto-Dominion Bank	497,507	(254,590)	—	—	242,917
	$ 1,768,533	**$ (960,211)**	**$ —**	**$ —**	**$ 808,322**

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

C. Purchases and Sales of Securities

During the six months ended June 30, 2017, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $99,707,441 and $108,962,259, respectively. Purchases and sales of U.S. Treasury obligations aggregated $8,282,048 and $12,433,480, respectively.

For the six months ended June 30, 2017, transactions for written options on equity index contracts were as follows:

	Contacts	Premium
Outstanding, beginning of period	—	$ —
Options written	1,800	102,300
Options closed	(1,800)	(102,300)
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 or delegates such responsibility to the Fund's subadvisor.

Effective March 1, 2017, Deutsche Alternative Asset Management (Global) Limited (DAAM Global), also an indirect, wholly owned subsidiary of Deutsche Bank AG, serves as subadvisor for the Fund and, as such, provides portfolio manager services to the Fund. Pursuant to a sub-advisory agreement between DIMA and DAAM Global, DIMA, not the Fund, compensates DAAM Global for the services it provides to 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, 2017, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waiver/reimbursements) of 0.37% of the Fund's average daily net assets.

For the period from January 1, 2017 through September 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 0.73%.

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, 2017, the Administration Fee was $92,264, of which $15,235 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, 2017, the amounts charged to the Fund by DSC aggregated $207, of which $98 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $8,528, 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $3,469.

E. Ownership of the Fund

At June 30, 2017, two participating insurance companies were owners of record of 10% or more of the total outstanding shares of the Fund, each owning 58% and 20%.

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, 2017.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,074.60
Expenses Paid per $1,000*	$ 3.24
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,021.67
Expenses Paid per $1,000*	$ 3.16

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Global Income Builder VIP	.63%

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

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

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

Proxy Voting

The 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 most recent 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 (hereinafter referred to as the “Board” or “Trustees”) approved the renewal of Deutsche Global Income Builder VIP’s (the “Fund”) investment management agreement (the “Agreement”) with Deutsche Investment Management Americas Inc. (“DIMA”) in September 2016.

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

— During the entire process, all of the Fund’s Trustees were independent of DIMA and its affiliates (the “Independent Trustees”).

— The Board 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 extensive 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 Management (“Deutsche AM”) division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM’s investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 1st quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the three- and five-year periods and has underperformed its benchmark in the one-year period ended December 31, 2015.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Sub-Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees of Deutsche Variable Series II (hereinafter referred to as the "Board" or "Trustees") approved a sub-advisory agreement (the "Sub-Advisory Agreement") between Deutsche Investment Management Americas Inc. ("DIMA") and Deutsche Alternative Asset Management (Global) Limited ("DAAM Global"), a U.K.-based affiliate of DIMA and an indirect, wholly owned subsidiary of Deutsche Bank AG, on behalf of Deutsche Global Income Builder VIP (the "Fund") at an in-person meeting in February 2017. In February 2017, all of the Fund's Trustees were independent of DIMA and its affiliates. DIMA relied on a manager of managers exemptive order granted to DIMA and the Fund by the SEC that permits DIMA, subject to the approval of the Board, to select sub-advisors that are affiliated with DIMA to manage all or a portion of the Fund's assets without obtaining shareholder approval. The Sub-Advisory Agreement became effective on March 1, 2017.

In determining to approve the Sub-Advisory Agreement, the Board considered the capabilities of DAAM Global and the terms of the Sub-Advisory Agreement, including the sub-advisory fee schedule. The Board considered that the Sub-Advisory Agreement was proposed by DIMA to allow for the relocation of one of the Fund's portfolio managers from New York to London. The Board considered that the appointment of DAAM Global was not expected to impact the Fund's expenses, and that pursuant to the Sub-Advisory Agreement, DAAM Global would be paid for its services by DIMA from its fees as investment advisor to the Fund. The Board noted DIMA's representation that its profitability in connection with the management of the Fund would likely decline under the new sub-advisory arrangement.

Given that DAAM Global is an affiliate of DIMA, the Board additionally took into account the factors that it considered as part of the process that it followed in approving the annual renewal of the Fund's investment management agreement with DIMA in September 2016.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the approval of the Sub-Advisory Agreement was in the best interests of the Fund. In making this determination the Board did not give particular weight to any single factor. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the Sub-Advisory Agreement.

Notes

Notes

Notes

Deutsche
Asset Management

VS2GIB-3 (R-028382-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series I

Deutsche Global Small Cap VIP

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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 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.

Performance Summary

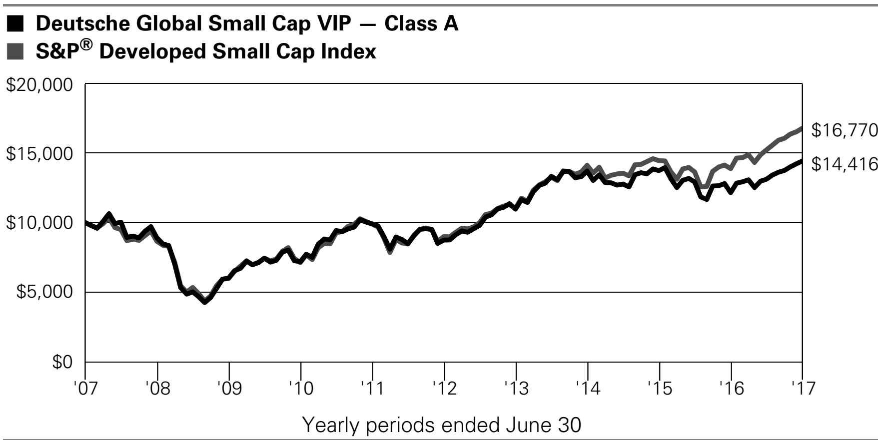
June 30, 2017 (Unaudited)

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, 2017 are 1.17% and 1.47% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment



The S&P® Developed SmallCap comprises the stocks representing the lowest 15% of float-adjusted market cap in each developed country. It Is a subset of the S&P® Global BMI, a comprehensive, rules-based index measuring global stock market performance.

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

Comparative Results

Deutsche Global Small Cap VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,997	$11,875	$10,529	$16,499	$14,416
	Average annual total return	9.97%	18.75%	1.73%	10.53%	3.72%
S&P Developed Small Cap Index	Growth of $10,000	$11,032	$12,098	$11,894	$18,670	$16,770
	Average annual total return	10.32%	20.98%	5.95%	13.30%	5.31%

Deutsche Global Small Cap VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,972	$11,841	$10,529	$16,499	$14,416
	Average annual total return	9.72%	18.41%	1.45%	10.24%	3.43%
S&P Developed Small Cap Index	Growth of $10,000	$11,032	$12,098	$11,894	$18,670	$16,770
	Average annual total return	10.32%	20.98%	5.95%	13.30%	5.31%

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)	**6/30/17**	**12/31/16**
Common Stocks	96%	97%
Cash Equivalents	4%	3%
Convertible Preferred Stock	0%	0%
Rights	0%	—
Warrant	0%	0%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
United States	53%	55%
Japan	9%	10%
United Kingdom	7%	8%
Ireland	4%	3%
Germany	3%	4%
Italy	3%	2%
Canada	2%	2%
France	2%	3%
Netherlands	2%	2%
Hong Kong	1%	1%
Malaysia	0%	0%
Other	14%	10%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
Industrials	21%	19%
Consumer Discretionary	21%	23%
Information Technology	19%	19%
Health Care	13%	12%
Financials	10%	11%
Consumer Staples	5%	5%
Materials	5%	5%
Energy	4%	5%
Real Estate	2%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's portfolio holdings are also posted on deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Manager

Joseph Axtell, CFA, Managing Director

Portfolio Manager

	Shares	Value ($)
Common Stocks 95.7%		
Austria 0.7%		
Lenzing AG (Cost $697,854)	3,755	**672,908**
Bermuda 1.1%		
Lazard Ltd. "A" (a) (Cost $546,996)	22,449	**1,040,062**
Canada 2.1%		
Quebecor, Inc. "B"	30,781	1,018,754
SunOpta, Inc.* (b)	100,054	1,020,551
(Cost $1,328,513)		**2,039,305**
China 0.6%		
Minth Group Ltd. (Cost $47,643)	145,036	**614,886**
Finland 1.2%		
Cramo Oyj (Cost $796,334)	37,620	**1,125,753**
France 2.0%		
Altran Technologies SA	75,264	1,226,688
Criteo SA (ADR)* (b)	13,534	663,843
(Cost $1,620,727)		**1,890,531**
Germany 3.2%		
M.A.X. Automation AG	41,340	351,243
PATRIZIA Immobilien AG*	50,662	956,196
Rational AG	1,064	566,305
United Internet AG (Registered)	21,779	1,197,601
(Cost $868,288)		**3,071,345**
Hong Kong 1.2%		
Techtronic Industries Co., Ltd. (Cost $302,134)	245,041	**1,126,741**
India 1.0%		
WNS Holdings Ltd. (ADR)* (Cost $817,019)	28,558	**981,253**
Indonesia 0.9%		
PT Arwana Citramulia Tbk	8,070,309	290,879
PT Matahari Department Store Tbk	515,300	548,247
(Cost $1,072,810)		**839,126**
Ireland 4.1%		
Avadel Pharmaceuticals PLC (ADR)*	114,494	1,262,869
Dalata Hotel Group PLC*	115,961	638,384
Greencore Group PLC	311,920	999,400
Ryanair Holdings PLC*	49,682	1,019,127
(Cost $3,189,549)		**3,919,780**
Israel 1.3%		
Kornit Digital Ltd.* (a)	28,818	557,628
Mellanox Technologies Ltd.* (a) (b)	14,698	636,424
(Cost $1,117,224)		**1,194,052**
Italy 2.5%		
Moncler SpA	57,900	1,355,674
Prysmian SpA	36,037	1,059,861
(Cost $1,637,216)		**2,415,535**
Japan 9.0%		
Ai Holdings Corp. (b)	37,317	1,003,636
Anicom Holdings, Inc. (b)	26,300	575,923
BRONCO BILLY Co., Ltd. (b)	9,600	224,562
Daikyonishikawa Corp.	73,600	980,897
Kura Corp.	5,700	262,005
Kusuri no Aoki Holdings Co., Ltd.	15,458	809,492
MISUMI Group, Inc.	20,774	473,937
Nippon Seiki Co., Ltd.	28,964	581,984
Optex Group Co., Ltd.	10,900	352,269
Syuppin Co., Ltd.	35,900	631,661
Topcon Corp.	28,200	484,897
UT Group Co., Ltd.*	76,924	1,234,477
Zenkoku Hosho Co., Ltd.	24,100	984,570
(Cost $5,214,523)		**8,600,310**
Korea 1.3%		
i-SENS, Inc.	19,340	464,843
Vieworks Co., Ltd.	16,222	815,247
(Cost $1,504,239)		**1,280,090**
Luxembourg 0.7%		
B&M European Value Retail SA (Cost $716,899)	154,959	**683,586**
Malaysia 0.1%		
Tune Protect Group Bhd. (Cost $201,429)	405,414	**117,110**
Netherlands 1.6%		
Brunel International NV	16,686	233,459
Core Laboratories NV	6,197	627,570
SBM Offshore NV	41,771	669,354
(Cost $1,418,184)		**1,530,383**
Panama 0.8%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $632,388)	26,626	**729,020**
Spain 1.1%		
Talgo SA 144A	93,426	564,691
Telepizza Group SA 144A*	79,606	459,156
(Cost $1,074,346)		**1,023,847**
Sweden 1.3%		
Boozt AB 144A*	16,069	158,311
Nobina AB 144A	199,650	1,083,007
(Cost $998,074)		**1,241,318**
Taiwan 0.5%		
Basso Industry Corp. (Cost $467,474)	172,000	**480,605**
United Kingdom 6.9%		
accesso Technology Group PLC*	21,200	482,519
Arrow Global Group PLC	144,139	760,791
Cardtronics PLC "A"* (a)	20,375	669,523
Clinigen Healthcare Ltd.	59,148	663,291
Domino's Pizza Group PLC	168,986	646,861
Electrocomponents PLC	152,863	1,148,786
Meggitt PLC	113,889	707,408
Polypipe Group PLC	123,640	615,636
Scapa Group PLC	146,461	903,240
(Cost $4,940,343)		**6,598,055**
United States 50.5%		
Advance Auto Parts, Inc.	4,033	470,207
Advanced Disposal Services, Inc.*	32,179	731,429

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

	Shares	Value ($)
Affiliated Managers Group, Inc.	6,900	1,144,434
Ambarella, Inc.* (b)	10,500	509,775
Atkore International Group, Inc.*	21,356	481,578
AZZ, Inc.	14,703	820,427
Belden, Inc.	14,000	1,056,020
Berry Global Group, Inc.*	14,971	853,497
BioScrip, Inc.* (b)	246,700	669,791
Cardiovascular Systems, Inc.*	15,900	512,457
Casey's General Stores, Inc.	9,746	1,043,894
Cognex Corp.	11,019	935,513
Commercial Metals Co.	46,240	898,443
Cypress Semiconductor Corp.	64,475	880,084
Del Taco Restaurants, Inc.*	83,798	1,152,222
Deluxe Corp.	12,400	858,328
Diamondback Energy, Inc.*	9,912	880,285
Dolby Laboratories, Inc. "A"	16,500	807,840
FCB Financial Holdings, Inc. "A"*	18,879	901,472
Five9, Inc.*	33,200	714,464
Fox Factory Holding Corp.*	27,685	985,586
Gentherm, Inc.*	31,493	1,221,928
Gibraltar Industries, Inc.*	29,173	1,040,017
Hain Celestial Group, Inc.*	14,946	580,204
Helen of Troy Ltd.*	11,200	1,053,920
Horizon Global Corp.*	41,100	590,196
Inphi Corp.* (b)	17,115	587,045
Jack in the Box, Inc.	9,453	931,121
Kindred Healthcare, Inc.	66,309	772,500
Knowles Corp.*	60,776	1,028,330
Leucadia National Corp.	29,018	759,111
Ligand Pharmaceuticals, Inc.* (b)	4,480	543,872
Masonite International Corp.*	10,632	802,716
Matador Resources Co.*	34,637	740,193
Molina Healthcare, Inc.*	21,563	1,491,728
National Storage Affiliates Trust (REIT)	39,135	904,410
NETGEAR, Inc.*	13,300	573,230
Neurocrine Biosciences, Inc.*	12,407	570,722
Pacira Pharmaceuticals, Inc.*	17,897	853,687
PAREXEL International Corp.*	8,552	743,254
Patterson-UTI Energy, Inc.	28,455	574,506
Primoris Services Corp.	39,173	976,975
Providence Service Corp.*	17,930	907,437
Retrophin, Inc.*	56,926	1,103,795
Rush Enterprises, Inc. "A"*	40,223	1,495,491
Samsonite International SA	119,400	498,555
Sinclair Broadcast Group, Inc. "A"	30,645	1,008,220
Solaris Oilfield Infrastructure, Inc. "A"* (b)	41,587	479,498
South State Corp.	8,387	718,766
Super Micro Computer, Inc.*	25,738	634,442
Tenneco, Inc.	13,738	794,469
TiVo Corp.	31,708	591,354
Trinseo SA	15,831	1,087,590
TriState Capital Holdings, Inc.*	22,960	578,592
WABCO Holdings, Inc.*	8,420	1,073,634
Welbilt, Inc.*	61,740	1,163,799
WEX, Inc.*	7,161	746,677
Zions Bancorp.	15,982	701,770
(Cost $39,223,366)		**48,231,500**
Total Common Stocks (Cost $70,433,572)		**91,447,101**

Convertible Preferred Stock 0.2%

United States

	Shares	Value ($)
Providence Service Corp. (Cost $196,900)	1,969	**249,877**

Right 0.0%

Spain

	Shares	Value ($)
Talgo SA* (Cost $7,539)	93,426	**7,362**

Warrants 0.0%

France

	Shares	Value ($)
Parrot SA, Expiration Date 12/15/2022*	13,230	1,959
Parrot SA, Expiration Date 12/22/2022*	13,230	1,996
Total Warrants (Cost $0)		**3,955**

Securities Lending Collateral 6.2%

	Shares	Value ($)
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (c) (d) (Cost $5,918,648)	5,918,648	**5,918,648**

Cash Equivalents 4.1%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 1.03% (c) (Cost $3,900,465)	3,900,465	**3,900,465**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $80,457,124)†	106.2	**101,527,408**
Other Assets and Liabilities, Net	(6.2)	**(5,942,336)**
Net Assets	100.0	**95,585,072**

* Non-income producing security.

† The cost for federal income tax purposes was $81,536,302. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $19,991,106. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $23,911,163 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,920,057.

(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, 2017 amounted to $5,838,436, which is 6.1% of net assets.

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

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

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.

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

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, 2017 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				
Austria	$ 672,908	$ —	$ —	$ 672,908
Bermuda	1,040,062	—	—	1,040,062
Canada	2,039,305	—	—	2,039,305
China	614,886	—	—	614,886
Finland	1,125,753	—	—	1,125,753
France	1,890,531	—	—	1,890,531
Germany	3,071,345	—	—	3,071,345
Hong Kong	1,126,741	—	—	1,126,741
India	981,253	—	—	981,253
Indonesia	839,126	—	—	839,126
Ireland	3,919,780	—	—	3,919,780
Israel	1,194,052	—	—	1,194,052
Italy	2,415,535	—	—	2,415,535
Japan	8,600,310	—	—	8,600,310
Korea	1,280,090	—	—	1,280,090
Luxembourg	683,586	—	—	683,586
Malaysia	117,110	—	—	117,110
Netherlands	1,530,383	—	—	1,530,383
Panama	729,020	—	—	729,020
Spain	1,023,847	—	—	1,023,847
Sweden	1,241,318	—	—	1,241,318
Taiwan	480,605	—	—	480,605
United Kingdom	6,598,055	—	—	6,598,055
United States	48,231,500	—	—	48,231,500
Convertible Preferred Stock	—	—	249,877	249,877
Rights	7,362	—	—	7,362
Warrants (e)	—	—	3,955	3,955
Short-Term Investments (e)	9,819,113	—	—	9,819,113
Total	**$101,273,576**	**$ —**	**$ 253,832**	**$101,527,408**

As a result of the fair valuation model utilized by the Fund, certain international equity securities transferred from Level 2 to Level 1. During the period ended June 30 2017, the amount of transfers between Level 2 and Level 1 was $31,147,651.

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

(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, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $70,638,011) – including $5,838,436 of securities loaned	$	91,708,295
Investment in Deutsche Government & Agency Securities Portfolio (cost $5,918,648)*		5,918,648
Investment in Deutsche Central Cash Management Government Fund (cost $3,900,465)		3,900,465
Total investments in securities, at value (cost $80,457,124)		101,527,408
Foreign currency, at value (cost $190,919)		193,592
Receivable for investments sold		109,520
Receivable for Fund shares sold		28,739
Dividends receivable		61,441
Interest receivable		7,839
Foreign taxes recoverable		23,599
Other assets		875
Total assets		101,953,013

Liabilities		
Payable upon return of securities loaned		5,918,648
Payable for Fund shares redeemed		314,312
Accrued management fee		55,361
Accrued Trustees' fees		510
Other accrued expenses and payables		79,110
Total liabilities		6,367,941
Net assets, at value	**$**	**95,585,072**

Net Assets Consist of		
Distributions in excess of net investment income		(313,447)
Net unrealized appreciation (depreciation) on:		
Investments		21,070,284
Foreign currency		2,757
Accumulated net realized gain (loss)		5,975,395
Paid-in capital		68,850,083
Net assets, at value	**$**	**95,585,072**
Class A		
Net Asset Value, offering and redemption price per share ($92,858,539 ÷ 7,856,904 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**11.82**
Class B		
Net Asset Value, offering and redemption price per share ($2,726,533 ÷ 238,262 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**11.44**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $43,171)	$	546,359
Income distributions — Deutsche Central Cash Management Government Fund		13,940
Securities lending income, net of borrower rebates		24,100
Total income		584,399
Expenses:		
Management fee		414,023
Administration fee		46,519
Services to shareholders		1,204
Record keeping fee (Class B)		421
Distribution service fee (Class B)		3,326
Custodian fee		22,374
Professional fees		37,006
Reports to shareholders		13,275
Trustees' fees and expenses		3,259
Other		8,307
Total expenses before expense reductions		549,714
Expense reductions		(85,448)
Total expenses after expense reductions		464,266
Net investment income (loss)		**120,133**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		6,644,960
Foreign currency		6,590
		6,651,550
Change in net unrealized appreciation (depreciation) on:		
Investments		2,057,224
Foreign currency		13,494
		2,070,718
Net gain (loss)		**8,722,268**
Net increase (decrease) in net assets resulting from operations	**$**	**8,842,401**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income (loss)	$ 120,133	$ 191,099
Net realized gain (loss)	6,651,550	8,666,143
Change in net unrealized appreciation (depreciation)	2,070,718	(8,347,993)
Net increase (decrease) in net assets resulting from operations	8,842,401	509,249
Distributions to shareholders from:		
Net investment income:		
Class A	—	(351,519)
Class B	—	(3,345)
Net realized gains:		
Class A	(8,009,441)	(10,844,338)
Class B	(245,528)	(308,285)
Total distributions	(8,254,969)	(11,507,487)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,961,287	4,096,927
Reinvestment of distributions	8,009,441	11,195,858
Payments for shares redeemed	(6,725,761)	(19,689,215)
Net increase (decrease) in net assets from Class A share transactions	3,244,967	(4,396,430)
Class B		
Proceeds from shares sold	170,763	238,868
Reinvestment of distributions	245,528	311,629
Payments for shares redeemed	(264,772)	(366,666)
Net increase (decrease) in net assets from Class B share transactions	151,519	183,831
Increase (decrease) in net assets	3,983,918	(15,210,837)
Net assets at beginning of period	91,601,154	106,811,991
Net assets at end of period (including distributions in excess of net investment income of $313,447 and $433,580, respectively)	**$ 95,585,072**	**$ 91,601,154**

Other Information		
Class A		
Shares outstanding at beginning of period	7,559,752	7,905,300
Shares sold	163,735	354,371
Shares issued to shareholders in reinvestment of distributions	695,868	973,553
Shares redeemed	(562,451)	(1,673,472)
Net increase (decrease) in Class A shares	297,152	(345,548)
Shares outstanding at end of period	**7,856,904**	**7,559,752**
Class B		
Shares outstanding at beginning of period	224,620	207,982
Shares sold	14,608	20,941
Shares issued to shareholders in reinvestment of distributions	22,020	27,824
Shares redeemed	(22,986)	(32,127)
Net increase (decrease) in Class B shares	13,642	16,638
Shares outstanding at end of period	**238,262**	**224,620**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	Years Ended December 31, 2016	2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$11.78**	**$13.17**	**$14.61**	**$17.31**	**$13.78**	**$12.67**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.02	.03	.06	.04	.04	.09
Net realized and unrealized gain (loss)	1.11	.15	.21	(.69)	4.66	1.83
Total from investment operations	1.13	.18	.27	(.65)	4.70	1.92
Less distributions from:						
Net investment income	—	(.05)	(.14)	(.15)	(.10)	(.09)
Net realized gains	(1.09)	(1.52)	(1.57)	(1.90)	(1.07)	(.72)
Total distributions	(1.09)	(1.57)	(1.71)	(2.05)	(1.17)	(.81)
Net asset value, end of period	**$11.82**	**$11.78**	**$13.17**	**$14.61**	**$17.31**	**$13.78**
Total Return (%)[b]	9.97**	1.57	1.16	(4.13)	35.94	15.37
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	93	89	104	135	154	124
Ratio of expenses before expense reductions (%)[c]	1.17*	1.17	1.12	1.13	1.14	1.11
Ratio of expenses after expense reductions (%)[c]	.99*	1.02	.99	.97	.94	.98
Ratio of net investment income (loss) (%)	.27*	.22	.41	.27	.28	.69
Portfolio turnover rate (%)	21**	41	27	33	39	36

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/17 (Unaudited)	2016	2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$11.45**	**$12.85**	**$14.29**	**$16.97**	**$13.52**	**$12.45**
Income (loss) from investment operations:						
Net investment income (loss)[a]	(.00)***	(.03)	.02	.00***	.01	.06
Net realized and unrealized gain (loss)	1.08	.17	.21	(.67)	4.57	1.79
Total from investment operations	1.08	.14	.23	(.67)	4.58	1.85
Less distributions from:						
Net investment income	—	(.02)	(.10)	(.11)	(.06)	(.06)
Net realized gains	(1.09)	(1.52)	(1.57)	(1.90)	(1.07)	(.72)
Total distributions	(1.09)	(1.54)	(1.67)	(2.01)	(1.13)	(.78)
Net asset value, end of period	**$11.44**	**$11.45**	**$12.85**	**$14.29**	**$16.97**	**$13.52**
Total Return (%)[b]	9.72**	1.34	.86	(4.33)	35.67	15.01
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	3	3	3	3	3	2
Ratio of expenses before expense reductions (%)[c]	1.46*	1.47	1.41	1.41	1.34	1.43
Ratio of expenses after expense reductions (%)[c]	1.27*	1.30	1.24	1.25	1.15	1.23
Ratio of net investment income (loss) (%)	(.02)*	(.23)	.15	.02	.07	.44
Portfolio turnover rate (%)	21**	41	27	33	39	36

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* 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 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, 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. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016 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, 2017, purchases and sales of investment securities (excluding short-term investments) aggregated $18,455,889 and $24,420,875, 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, 2017, 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, 2017 through April 30, 2018, 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	1.27%

For the six months ended June 30, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 82,902
Class B	2,546
	$ 85,448

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, 2017, the Administration Fee was $46,519, of which $7,883 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2017
Class A	$ 238	$ 111
Class B	91	45
	$ 329	**$ 156**

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, 2017, the Distribution Service Fee aggregated $3,326, of which $556 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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $6,094, of which $5,868 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, 2017, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 40%, 18%,15% 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 18%, 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, 2017.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,099.70	$1,097.20
Expenses Paid per $1,000*	$ 5.15	$ 6.60

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,019.89	$1,018.50
Expenses Paid per $1,000*	$ 4.96	$ 6.36

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche Global Small Cap VIP	.99%	1.27%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Global Small Cap VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 2nd quartile, 2nd quartile and 3rd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-year period and has underperformed its benchmark in the three- and five-year periods ended December 31, 2015. 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.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 also observed that the Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM manages an institutional account comparable to the Fund, but that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

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Deutsche
Asset Management

VS1glosc-3 (R-028377-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series II

Deutsche Government & Agency Securities VIP

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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.

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. The "full faith and credit" guarantee of the US government applies to the timely repayment of interest, and does not eliminate market risk. Because of the rising US government debt burden, it is possible that the US government may not be able to meet its financial obligations or that securities issued by the US government may experience credit downgrades. The Fund may lend securities to approved institutions. See the prospectus for details.

Deutsche Asset 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

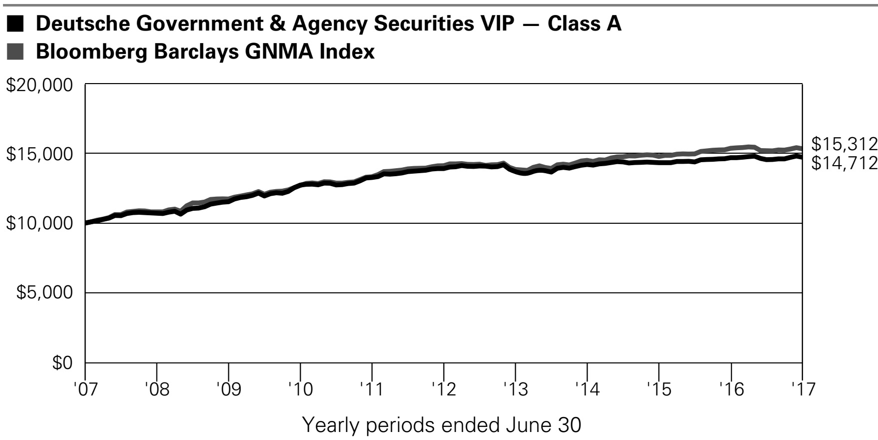
June 30, 2017 (Unaudited)

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, 2017 are 0.86% and 1.21% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment in Deutsche Government & Agency Securities VIP



The Bloomberg 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	$10,122	$10,024	$10,367	$10,591	$14,712
	Average annual total return	1.22%	0.24%	1.21%	1.16%	3.94%
Bloomberg Barclays GNMA Index	Growth of $10,000	$10,089	$9,980	$10,572	$10,859	$15,312
	Average annual total return	0.89%	–0.20%	1.87%	1.66%	4.35%

Deutsche Government & Agency Securities VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,103	$9,997	$10,268	$10,417	$14,207
	Average annual total return	1.03%	–0.03%	0.88%	0.82%	3.57%
Bloomberg Barclays GNMA Index	Growth of $10,000	$10,089	$9,980	$10,572	$10,859	$15,312
	Average annual total return	0.89%	–0.20%	1.87%	1.66%	4.35%

The growth of $10,000 is cumulative.

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

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Net Assets)	**6/30/17**	**12/31/16**
Mortgage-Backed Securities Pass-Throughs	97%	94%
Government & Agency Obligations	19%	7%
Collateralized Mortgage Obligations	15%	16%
Corporate Bonds	3%	2%
Asset-Backed	2%	—
Commercial Mortgage-Backed Securities	1%	1%
Cash Equivalents and Other Assets and Liabilities, net	–37%	–20%
	100%	100%

Coupons*	**6/30/17**	**12/31/16**
Less than 3.5%	41%	27%
3.5%–4.49%	31%	35%
4.5%–5.49%	17%	20%
5.5%–6.49%	10%	17%
6.5%–7.49%	1%	1%
7.5% and Greater	0%	0%
	100%	100%

Interest Rate Sensitivity	**6/30/17**	**12/31/16**
Effective Maturity	10.5 years	9.9 years
Effective Duration	4.7 years	4.2 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, Managing Director
Scott Agi, CFA, Director
Portfolio Managers

	Principal Amount ($)(a)	Value ($)
Mortgage-Backed Securities Pass-Throughs 96.6%		
Federal Home Loan Mortgage Corp., 3.0%, 7/1/2047 (b)	7,500,000	7,483,594
Federal National Mortgage Association:		
3.0%, 7/1/2047 (b)	3,100,000	3,095,821
3.5%, 3/1/2045	1,612,397	1,665,085
4.0%, with various maturities from 3/1/2042 until 4/1/2046	981,200	1,038,056
Government National Mortgage Association:		
3.0%, 7/1/2047 (b)	4,500,000	4,545,351
3.5%, with various maturities from 4/15/2042 until 7/1/2047 (b)	9,911,267	10,290,248
4.0%, with various maturities from 9/20/2040 until 7/1/2047 (b)	6,412,038	6,782,064
4.5%, with various maturities from 6/20/2033 until 4/20/2047	3,599,508	3,897,630
4.55%, 1/15/2041	186,729	201,221
4.625%, 5/15/2041	100,862	108,552
5.0%, with various maturities from 12/15/2032 until 8/15/2040	2,387,290	2,624,898
5.5%, with various maturities from 1/15/2034 until 6/15/2042	1,857,551	2,086,460
6.0%, with various maturities from 5/20/2034 until 2/15/2039	3,215,271	3,705,308
6.5%, with various maturities from 9/15/2036 until 2/15/2039	377,806	428,690
7.0%, with various maturities from 2/20/2027 until 11/15/2038	98,999	101,772
7.5%, 10/20/2031	3,524	4,012
Total Mortgage-Backed Securities Pass-Throughs (Cost $48,286,852)		**48,058,762**
Asset-Backed 1.8%		
Automobile Receivables 0.3%		
AmeriCredit Automobile Receivables Trust, "A3", Series 2017-1, 1.87%, 8/18/2021	170,000	**169,944**
Credit Card Receivables 0.6%		
Chase Issuance Trust, "A", Series 2017-A2, 1.559%*, 3/15/2024	300,000	**300,908**
Miscellaneous 0.9%		
Domino's Pizza Master Issuer LLC, "A23", Series 2017-1A, 144A, 4.118%, 7/25/2047 (b)	450,000	**449,719**
Total Asset-Backed (Cost $919,994)		**920,571**

	Principal Amount ($)(a)	Value ($)
Collateralized Mortgage Obligations 15.4%		
Federal Home Loan Mortgage Corp.:		
"OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036	87,549	78,363
"YI", Series 3936, Interest Only, 3.0%, 6/15/2025	28,091	617
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	493,883	23,166
"WI", Series 3939, Interest Only, 3.0%, 10/15/2025	159,486	5,274
"EI", Series 3953, Interest Only, 3.0%, 11/15/2025	240,724	9,076
"IO", Series 3974, Interest Only, 3.0%, 12/15/2025	91,578	5,741
"DI", Series 4010, Interest Only, 3.0%, 2/15/2027	77,813	6,248
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	846,649	81,209
"CZ", Series 4113, 3.0%, 9/15/2042	309,963	292,483
"PL", Series 4627, 3.0%, 10/15/2046	500,000	488,797
"22", Series 243, Interest Only, 3.422%**, 6/15/2021	33,392	546
"IK", Series 3754, Interest Only, 3.5%, 6/15/2025	378,174	20,901
"PI", Series 3940, Interest Only, 4.0%, 2/15/2041	320,701	45,948
"C1", Series 329, Interest Only, 4.0%, 12/15/2041	948,149	181,335
"UA", Series 4298, 4.0%, 2/15/2054	126,405	129,713
"C32", Series 303, Interest Only, 4.5%, 12/15/2042	979,525	206,344
"C28", Series 303, Interest Only, 4.5%, 1/15/2043	1,163,794	247,760
"MI", Series 3871, Interest Only, 6.0%, 4/15/2040	52,236	4,667
"IJ", Series 4472, Interest Only, 6.0%, 11/15/2043	401,282	92,603
"A", Series 172, Interest Only, 6.5%, 1/1/2024	8,816	1,289
"C22", Series 324, Interest Only, 6.5%, 4/15/2039	540,241	132,817
Federal National Mortgage Association:		
"DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026	80,409	4,552
"IB", Series 2013-35, Interest Only, 3.0%, 4/25/2033	569,174	83,046
"Z", Series 2013-44, 3.0%, 5/25/2043	95,007	90,890
"HI", Series 2010-123, Interest Only, 3.5%, 3/25/2024	57,472	883
"KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025	136,400	1,470
''IO", Series 2012-146, Interest Only, 3.5%, 1/25/2043	1,225,265	230,902
"4", Series 406, Interest Only, 4.0%, 9/25/2040	232,696	45,237
"25", Series 351, Interest Only, 4.5%, 5/25/2019	27,300	703
"21", Series 334, Interest Only, 5.0%, 3/25/2018	3,488	29
"20", Series 334, Interest Only, 5.0%, 3/25/2018	5,313	43

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

	Principal Amount ($)(a)	Value ($)
"23", Series 339, Interest Only, 5.0%, 6/25/2018	7,941	85
"26", Series 381, Interest Only, 5.0%, 12/25/2020	13,399	668
"IO", Series 2016-26, Interest Only, 5.0%, 5/25/2046	1,057,281	204,061
"30", Series 381, Interest Only, 5.5%, 11/25/2019	66,694	2,737
"PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024	1,632,115	111,531
"UI", Series 2010-126, Interest Only, 5.5%, 10/25/2040	429,584	88,535
"IO", Series 2014-70, Interest Only, 5.5%, 10/25/2044	563,981	138,867
"BI", Series 2015-97, Interest Only, 5.5%, 1/25/2046	473,527	105,712
"WI", Series 2011-59, Interest Only, 6.0%, 5/25/2040	88,593	5,035
"101", Series 383, Interest Only, 6.5%, 9/25/2022	386,521	40,367
Government National Mortgage Association:		
"PB", Series 2012-90, 2.5%, 7/20/2042	515,988	463,200
"ZB", Series 2016-161, 3.0%, 11/20/2046	981,157	922,862
"JI", Series 2013-10, Interest only, 3.5%, 1/20/2043	552,337	108,933
"ID", Series 2013-70, Interest only, 3.5%, 5/20/2043	263,565	47,325
"BI", Series 2014-22, Interest Only, 4.0%, 2/20/2029	498,075	49,882
"IP", Series 2015-50, Interest Only, 4.0%, 9/20/2040	1,082,285	100,707
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	313,544	41,262
"LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018	28,157	575
"NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037	52,365	610
"CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038	1,251,588	102,174
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	248,363	41,826
"MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040	311,956	38,209
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044	170,521	30,304
"GZ", Series 2005-24, 5.0%, 3/20/2035	617,302	736,173
"MZ", Series 2009-98, 5.0%, 10/16/2039	1,246,099	1,530,133
"AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023	28,716	859
"GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033	368,228	71,226
"IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038	93,211	16,783
"IA", Series 2012-64, Interest Only, 5.5%, 5/16/2042	224,174	54,044
"DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038	147,803	24,966
"IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039	38,030	9,597
"IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027	302,650	66,310
Total Collateralized Mortgage Obligations (Cost $7,006,540)		**7,668,210**

		Principal Amount ($)(a)	Value ($)
Commercial Mortgage-Backed Securities 1.5%			
Fannie Mae Grantor Trust, "A", Series 2017-T1, 2.898%, 6/25/2027		500,000	496,514
FHLMC Multifamily Structured Pass-Through Securities, "X1", Series K055, Interest Only, 1.502%**, 3/25/2026		2,489,191	241,526
Total Commercial Mortgage-Backed Securities (Cost $742,696)			**738,040**
Corporate Bonds 3.0%			
Financials			
Bank of Montreal, 144A, 2.5%, 1/11/2022		500,000	503,158
National Australia Bank Ltd., 144A, 2.4%, 12/7/2021		1,000,000	1,000,681
Total Corporate Bonds (Cost $1,496,265)			**1,503,839**
Government & Agency Obligations 18.1%			
Other Government Related (c) 2.1%			
European Financial Stability Facility, REG S, 1.25%, 5/24/2033	EUR	891,000	**998,058**
Sovereign Bonds 5.7%			
Government of Australia, Series 150, REG S, 3.0%, 3/21/2047	AUD	748,000	523,061
Government of New Zealand, Series 0427, REG S, 4.5%, 4/15/2027	NZD	1,600,000	1,321,093
Kingdom of Norway, Series 479, 144A, REG S, 1.75%, 2/17/2027	NOK	8,400,000	1,015,657
			2,859,811
U.S. Treasury Obligations 10.3%			
U.S. Treasury Notes:			
0.75%, 10/31/2017 (d)		3,000,000	2,996,580
1.75%, 5/31/2022		2,150,000	2,137,403
			5,133,983
Total Government & Agency Obligations (Cost $8,991,566)			**8,991,852**
Short-Term U.S. Treasury Obligation 1.8%			
U.S. Treasury Bill, 0.59%***, 8/10/2017 (e) (Cost $877,375)		880,000	**879,190**

	Shares	Value ($)
Cash Equivalents 10.2%		
Deutsche Central Cash Management Government Fund, 1.03% (f) (Cost $5,080,240)	5,080,240	**5,080,240**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $73,401,528)†	148.4	**73,840,704**
Other Assets and Liabilities, Net	(48.4)	**(24,067,273)**
Net Assets	100.0	**49,773,431**

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

* Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of June 30, 2017.

** These securities are shown at their current rate as of June 30, 2017.

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

† The cost for federal income tax purposes was $73,401,528. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $439,176. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,195,630 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $756,454.

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

(b) When-issued, delayed delivery or forward commitment securities included.

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

(d) At June 30, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

(e) At June 30, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

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

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

Interest Only: Interest Only (IO) bonds represent the "interest only" portion of payments on a pool of underlying mortgages or mortgage-backed securities. IO securities are subject to prepayment risk of the pool of underlying mortgages.

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

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

Included in the portfolio are investments in mortgage- or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association and Government National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At June 30, 2017, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year U.S. Treasury Note	USD	9/20/2017	13	1,631,906	**(13,417)**

At June 30, 2017, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
5 Year U.S. Treasury Note	USD	9/29/2017	16	1,885,375	4,214
Euro-BTP Italian Government Bond	EUR	9/7/2017	7	1,080,451	15,587
Euro-OAT French Government Bond	EUR	9/7/2017	11	1,865,450	2,364
Federal Republic of Germany Euro-Bund	EUR	9/7/2017	6	1,109,279	20,179
U.S. Treasury Long Bond	USD	9/20/2017	3	461,063	(4,319)
Ultra 10 Year U.S. Treasury Note	USD	9/20/2017	7	943,688	7,257
Ultra Long U.S. Treasury Bond	USD	9/20/2017	11	1,824,625	(34,399)
United Kingdom Long Gilt Bond	GBP	9/27/2017	15	2,453,229	42,955
Total net unrealized appreciation					**53,838**

At June 30, 2017, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount	Currency	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation ($)
6/15/2017 6/15/2047	40,600,000	JPY	Fixed — 0.811%	Floating — 6-Month JPY LIBOR	2,643	2,643
6/15/2017 6/15/2022	222,900,000	JPY	Floating — 6-Month JPY LIBOR	Fixed — 0.105%	482	482
Total unrealized appreciation						**3,125**

LIBOR: London Interbank Offered Rate; JPY 6-Month LIBOR rate at June 30, 2017 is 0.02%.

At June 30, 2017, 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) ($)	Unrealized Appreciation ($)
1/12/2041	439,564[1]	4.0%	Markit IOS INDEX FN30.400.10	2,179	—	**2,179**

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

Counterparties:

1 Goldman Sachs & Co.

As of June 30, 2017, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	1,338,100	NZD	1,889,520	8/1/2017	45,720	Australia & New Zealand Banking Group Ltd.
USD	560,752	AUD	750,000	8/30/2017	15,256	Australia & New Zealand Banking Group Ltd.
NZD	1,400,000	CAD	1,340,605	9/14/2017	10,529	Citigroup, Inc.
USD	984,917	CAD	1,300,000	9/25/2017	18,913	Canadian Imperial Bank of Commerce
Total unrealized appreciation					**90,418**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
NZD	987,657	USD	711,079	8/1/2017	(12,248)	BNP Paribas
NZD	944,760	USD	645,786	8/1/2017	(46,125)	Australia & New Zealand Banking Group Ltd.
NZD	1,803,135	USD	1,296,535	8/16/2017	(23,660)	Australia & New Zealand Banking Group Ltd.
AUD	750,000	USD	557,374	8/30/2017	(18,634)	Citigroup, Inc.
NOK	8,688,305	USD	1,028,866	9/8/2017	(13,230)	Citigroup, Inc.
CAD	1,342,181	NZD	1,400,000	9/14/2017	(11,746)	BNP Paribas
CAD	1,300,000	USD	1,000,244	9/25/2017	(3,586)	Canadian Imperial Bank of Commerce
NOK	8,600,000	EUR	891,994	9/26/2017	(8,334)	Goldman Sachs & Co.
EUR	905,644	NOK	8,600,000	9/26/2017	(7,329)	Danske Bank AS
AUD	709,000	USD	540,676	9/29/2017	(3,637)	Australia & New Zealand Banking Group Ltd.
EUR	879,000	USD	1,008,859	10/5/2017	(266)	Citigroup, Inc.
Total unrealized depreciation					**(148,795)**	

Currency Abbreviations

AUD	Australian Dollar	JPY	Japanese Yen
CAD	Canadian Dollar	NOK	Norwegian Krone
EUR	Euro	NZD	New Zealand Dollar
GBP	British pound	USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, interest rate swap contracts, total return swap contracts and 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, 2017 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed-Income Investments (g)				
Mortgage-Backed Securities Pass-Throughs	$ —	$ 48,058,762	$ —	$ 48,058,762
Asset-Backed	—	920,571	—	920,571
Collateralized Mortgage Obligations	—	7,668,210	—	7,668,210
Commercial Mortgage-Backed Securities	—	738,040	—	738,040
Corporate Bonds	—	1,503,839	—	1,503,839
Government & Agency Obligations	—	8,991,852	—	8,991,852
Short-Term U.S. Treasury Obligations	—	879,190	—	879,190
Short-Term Investments	5,080,240	—	—	5,080,240
Derivatives (h)				
Futures Contracts	92,556	—	—	92,556
Interest Rate Swap Contracts	—	3,125	—	3,125
Total Return Swap Contracts	—	2,179	—	2,179
Forward Foreign Currency Exchange Contracts	—	90,418	—	90,418
Total	**$ 5,172,796**	**$ 68,856,186**	**$ —**	**$ 74,028,982**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (h)				
Futures Contracts	$ (52,135)	$ —	$ —	$ (52,135)
Forward Foreign Currency Exchange Contracts	—	(148,795)	—	(148,795)
Total	**$ (52,135)**	**$ (148,795)**	**$ —**	**$ (200,930)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2017.

(g) See Investment Portfolio for additional detailed categorizations.

(h) Derivatives include unrealized appreciation (depreciation) on open futures contracts, interest rate swap contracts, total return 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, 2017 (Unaudited)

Assets		
Investments		
Investments in non-affiliated securities, at value (cost $68,321,288)	$	68,760,464
Investment in Deutsche Central Cash Management Government Fund (cost $5,080,240)		5,080,240
Total investments in securities, at value (cost $73,401,528)		73,840,704
Cash		100
Foreign currency, at value (cost $21,669)		21,845
Receivable for investments sold		734,335
Receivable for investments sold — forward commitments		13,884,743
Receivable for Fund shares sold		15,078
Interest receivable		255,971
Receivable for variation margin on futures contracts		60,044
Unrealized appreciation on bilateral swap contracts		2,179
Unrealized appreciation on forward foreign currency exchange contracts		90,418
Other assets		724
Total assets		88,906,141
Liabilities		
Payable for investments purchased		2,049,722
Payable for investments purchased — forward commitments		36,628,794
Payable for Fund shares redeemed		205,506
Payable for variation margin on centrally cleared swaps		3,511
Unrealized depreciation on forward foreign currency exchange contracts		148,795
Accrued management fee		10,761
Accrued Trustees' fees		398
Other accrued expenses and payables		85,223
Total liabilities		39,132,710
Net assets, at value	**$**	**49,773,431**
Net Assets Consist of		
Undistributed net investment income		502,962
Unrealized appreciation (depreciation) on:		
Investments		439,176
Swap contracts		5,304
Futures		40,421
Foreign currency		(57,431)
Accumulated net realized gain (loss)		177,857
Paid-in capital		48,665,142
Net assets, at value	**$**	**49,773,431**
Class A		
Net Asset Value, offering and redemption price per share ($47,616,099 ÷ 4,289,314 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.10**
Class B		
Net Asset Value, offering and redemption price per share ($2,157,332 ÷ 194,244 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.11**

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

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income	
Income:	
Interest	$ 645,277
Income distributions — Deutsche Central Cash Management Government Fund	20,422
Securities lending income, net of borrower rebates	78
Total income	665,777
Expenses:	
Management fee	116,251
Administration fee	25,834
Services to shareholders	641
Record keeping fees (Class B)	1,077
Distribution service fees (Class B)	2,795
Custodian fee	14,164
Professional fees	41,118
Reports to shareholders	12,461
Trustees' fees and expenses	2,384
Other	11,637
Total expenses before expense reductions	228,362
Expense reductions	(68,586)
Total expenses after expense reductions	159,776
Net investment income	**506,001**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	1,148,829
Swap contracts	(82,268)
Futures	(203,480)
Foreign currency	165,541
	1,028,622
Change in net unrealized appreciation (depreciation) on:	
Investments	(987,240)
Swap contracts	110,916
Futures	32,226
Foreign currency	(62,316)
	(906,414)
Net gain (loss)	**122,208**
Net increase (decrease) in net assets resulting from operations	**$ 628,209**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income	$ 506,001	$ 1,359,001
Net realized gain (loss)	1,028,622	(370,572)
Change in net unrealized appreciation (depreciation)	(906,414)	(170,481)
Net increase (decrease) in net assets resulting from operations	628,209	817,948
Distributions to shareholders from:		
Net investment income:		
Class A	(1,241,081)	(1,846,498)
Class B	(46,826)	(72,152)
Total distributions	(1,287,907)	(1,918,650)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,031,690	2,898,041
Reinvestment of distributions	1,241,081	1,846,498
Payments for shares redeemed	(5,761,155)	(18,364,955)
Net increase (decrease) in net assets from Class A share transactions	(3,488,384)	(13,620,416)
Class B		
Proceeds from shares sold	34,498	226,087
Reinvestment of distributions	46,826	72,152
Payments for shares redeemed	(295,178)	(503,123)
Net increase (decrease) in net assets from Class B share transactions	(213,854)	(204,884)
Increase (decrease) in net assets	(4,361,936)	(14,926,002)
Net assets at beginning of period	54,135,367	69,061,369
Net assets at end of period (including undistributed net investment income of $502,962 and $1,284,868, respectively)	**$ 49,773,431**	**$ 54,135,367**

Other Information		
Class A		
Shares outstanding at beginning of period	4,598,638	5,786,470
Shares sold	91,795	253,037
Shares issued to shareholders in reinvestment of distributions	112,315	163,697
Shares redeemed	(513,434)	(1,604,566)
Net increase (decrease) in Class A shares	(309,324)	(1,187,832)
Shares outstanding at end of period	**4,289,314**	**4,598,638**
Class B		
Shares outstanding at beginning of period	213,112	231,100
Shares sold	3,092	19,740
Shares issued to shareholders in reinvestment of distributions	4,234	6,391
Shares redeemed	(26,194)	(44,119)
Net increase (decrease) in Class B shares	(18,868)	(17,988)
Shares outstanding at end of period	**194,244**	**213,112**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$11.25**	**$11.48**	**$11.80**	**$11.47**	**$12.69**	**$13.12**
Income (loss) from investment operations:						
Net investment income[a]	.11	.25	.27	.29	.24	.34
Net realized and unrealized gain (loss)	.03	(.13)	(.26)	.31	(.59)	.03
Total from investment operations	.14	.12	.01	.60	(.35)	.37
Less distributions from:						
Net investment income	(.29)	(.35)	(.33)	(.27)	(.37)	(.52)
Net realized gains	—	—	—	—	(.50)	(.28)
Total distributions	(.29)	(.35)	(.33)	(.27)	(.87)	(.80)
Net asset value, end of period	**$11.10**	**$11.25**	**$11.48**	**$11.80**	**$11.47**	**$12.69**
Total Return (%)[b]	1.22**	1.06	.06	5.29	(3.04)	2.93
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	48	52	66	87	96	121
Ratio of expenses before expense reductions (%)[c]	.87*	.86	.74	.72	.71	.68
Ratio of expenses after expense reductions (%)[c]	.60*	.58	.68	.70	.67	.66
Ratio of net investment income (%)	1.97*	2.22	2.33	2.49	2.05	2.65
Portfolio turnover rate (%)	292**	521	376	393	794	796

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$11.24**	**$11.46**	**$11.79**	**$11.46**	**$12.67**	**$13.10**
Income (loss) from investment operations:						
Net investment income[a]	.09	.21	.23	.25	.20	.29
Net realized and unrealized gain (loss)	.03	(.12)	(.27)	.31	(.59)	.03
Total from investment operations	.12	.09	(.04)	.56	(.39)	.32
Less distributions from:						
Net investment income	(.25)	(.31)	(.29)	(.23)	(.32)	(.47)
Net realized gains	—	—	—	—	(.50)	(.28)
Total distributions	(.25)	(.31)	(.29)	(.23)	(.82)	(.75)
Net asset value, end of period	**$11.11**	**$11.24**	**$11.46**	**$11.79**	**$11.46**	**$12.67**
Total Return (%)[b]	1.03**	.79	(.36)	4.95	(3.25)	2.48
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	2	2	3	3	4	5
Ratio of expenses before expense reductions (%)[c]	1.22*	1.21	1.09	1.06	1.06	1.03
Ratio of expenses after expense reductions (%)[c]	.95*	.93	1.03	1.03	.99	1.01
Ratio of net investment income (%)	1.63*	1.88	1.99	2.16	1.71	2.29
Portfolio turnover rate (%)	292**	521	376	393	794	796

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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.

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. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds, including Deutsche Government & Agency Securities Portfolio, managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, the Fund had no securities on loan.

Forward Commitments. The Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis 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 Fund may sell the forward commitment security before the settlement date or enter into a new commitment to extend the delivery date into the future. 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, delayed delivery or forward commitment 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. Such transactions may also have the effect of leverage on the Fund and may cause the Fund to be more volatile. 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, 2016, the Fund had net tax basis capital loss carryforwards of approximately $843,000 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, 2016 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The

Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

The timing and characterization of certain income and capital gain distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to investments in futures contracts, investments in swap contracts and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

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

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

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are recorded on an identified cost basis. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund.

B. Derivative Instruments

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

The value of a swap is adjusted daily, and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement to provide assets of value and recourse in the event of default. The maximum counterparty credit risk is the net present value of the cash flows to be received from or paid to the counterparty over the term of the swap, to the extent that this amount is beneficial to the Fund, in addition to any related collateral posted to the counterparty by the Fund. This risk may be partially reduced by a master netting arrangement between the Fund and the counterparty. Upon entering into a centrally cleared swap, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of the measurement period are recorded as realized gain or loss in the Statement of Operations.

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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in total return swap contracts had a total notional amount generally indicative of a range from approximately $440,000 to $963,000.

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, 2017, the Fund entered into interest rate swap agreements 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.

A summary of the open interest rate swap contracts as of June 30, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in interest rate swap contracts had a total USD equivalent notional amount generally indicative of a range from $2,396,000 to $11,953,000.

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, 2017, 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, 2017, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $1,632,000 to $7,595,000 and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $8,787,000 to $11,623,000.

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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $1,646,000 to $6,789,000 and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $962,000 to $2,884,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $0 to approximately $4,050,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2017 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) (b)	$ —	$ 5,304	$ 92,556	$ 97,860
Foreign Exchange Contracts (c)	90,418	—	—	90,418
	$ 90,418	**$ 5,304**	**$ 92,556**	**$ 188,278**

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

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

(b) Unrealized appreciation on bilateral swap contracts

(c) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	Forward Contracts	Futures Contracts	Total
Interest Rate Contracts (d)	$ —	$ (52,135)	$ (52,135)
Foreign Exchange Contracts (e)	(148,795)	—	(148,795)
	$ (148,795)	**$ (52,135)**	**$ (200,930)**

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

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

(e) 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, 2017 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (f)	$ —	$ (82,268)	$ (203,480)	$ (285,748)
Foreign Exchange Contracts (g)	160,348	—	—	160,348
	$ 160,348	**$ (82,268)**	**$ (203,480)**	**$ (125,400)**

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

(f) Net realized gain (loss) on swap contracts and futures, respectively

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

Change in Net Unrealized Appreciation (Depreciation)	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (h)	$ —	$ 110,916	$ 32,226	$ 143,142
Foreign Exchange Contracts (i)	(63,132)	—	—	(63,132)
	$ (63,132)	**$ 110,916**	**$ 32,226**	**$ 80,010**

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

(h) Change in net unrealized appreciation (depreciation) from swap contracts and futures, respectively

(i) 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, 2017, the Fund has transactions subject to enforceable master netting agreements which govern the terms of certain transactions, and reduce the counterparty risk associated with such transactions. Master netting agreements allow a Fund to close out and net total exposure to a counterparty in the event of a deterioration in the credit quality or contractual default with respect to all of the transactions with a counterparty. As defined by the master netting agreement, the Fund may have collateral agreements with certain counterparties to mitigate risk. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivatives assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by a 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.	$ 60,976	$ (60,976)	$ —	$ —
Canadian Imperial Bank of Commerce	18,913	(3,586)	—	15,327
Citigroup, Inc.	10,529	(10,529)	—	—
Goldman Sachs & Co.	2,179	(2,179)	—	—
	$ 92,597	**$ (77,270)**	**$ —**	**$ 15,327**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Australia & New Zealand Banking Group Ltd.	$ 73,422	$ (60,976)	$ —	$ 12,446
BNP Paribas	23,994	—	—	23,994
Canadian Imperial Bank of Commerce	3,586	(3,586)	—	—
Citigroup, Inc.	32,130	(10,529)	—	21,601
Danske Bank AS	7,329	—	—	7,329
Goldman Sachs & Co.	8,334	(2,179)	—	6,155
	$ 148,795	**$ (77,270)**	**$ —**	**$ 71,525**

C. Purchases and Sales of Securities

During the six months ended June 30, 2017, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $184,355,165 and $183,347,177, respectively. Purchases and sales of U.S. Treasury securities aggregated $3,793,709 and $1,639,037, 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	.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, 2017, 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, 2017 through April 30, 2017, 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	.58%
Class B	.93%

Effective May 1, 2017 through April 30, 2018, 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	.65%
Class B	1.00%

For the six months ended June 30, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$	65,625
Class B		2,961
	$	**68,586**

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, 2017, the Administration Fee was $25,834, of which $4,162 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, 2017, the amounts charged to the Fund by DSC were as follows:

		Total Aggregated		**Unpaid at June 30, 2017**
Class A	$	133	$	71
Class B		25		13
	$	**158**	**$**	**84**

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, 2017, the Distribution Service Fee aggregated $2,795, of which $446 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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $6,727, of which $6,140 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $6.

E. Ownership of the Fund

At June 30, 2017, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 33% and 54%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 94%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $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, 2017.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,012.20	$1,010.30
Expenses Paid per $1,000*	$ 2.99	$ 4.74
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,021.82	$1,020.08
Expenses Paid per $1,000*	$ 3.01	$ 4.76

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Government & Agency Securities VIP	.60%	.95%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Government & Agency Securities VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 4th 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2015. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Deutsche
Asset Management

VS2GAS-3 (R-028384-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series II

Deutsche Government Money Market VIP

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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.

You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time. 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, 2017 (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.

You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

	7-Day Current Yield
June 30, 2017	.54%*
December 31, 2016	.04%*

* 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)	**6/30/17**	**12/31/16**
Government & Agency Obligations	79%	58%
Repurchase Agreements	21%	42%
	100%	100%

Weighted Average Maturity	**6/30/17**	**12/31/16**
Deutsche Variable Series II — Deutsche Government Money Market VIP	26 days	29 days
Government & Agency Retail Money Fund Average*****	31 days	36 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.

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.

Portfolio Management Team

A group of investment professionals is responsible for the day-to-day management of the fund. These investment professionals have a broad range of experience managing money market funds.

Investment Portfolio

	Principal Amount ($)	Value ($)
Government & Agency Obligations 78.3%		
U.S. Government Sponsored Agencies 39.5%		
Federal Farm Credit Bank:		
0.75%**, 10/5/2017	1,500,000	1,497,040
0.88%*, 3/2/2018	1,000,000	1,000,000
1.101%*, 7/23/2018	1,500,000	1,499,933
1.147%*, 7/20/2018	1,200,000	1,200,000
1.157%*, 1/10/2019	500,000	500,540
1.264%*, 8/29/2017	2,000,000	2,000,252
1.283%*, 11/13/2018	1,500,000	1,500,000
1.324%*, 9/21/2017	500,000	500,000
Federal Home Loan Bank:		
0.76%**, 11/2/2017	500,000	498,708
0.8%*, 2/9/2018	2,000,000	2,000,000
0.88%*, 2/2/2018	1,500,000	1,500,000
0.881%*, 2/1/2018	3,000,000	3,000,000
0.881%*, 2/1/2018	1,500,000	1,500,000
0.909%*, 8/14/2017	1,250,000	1,250,000
0.929%*, 2/8/2018	1,000,000	999,968
0.953%**, 10/31/2017	800,000	797,451
0.968%**, 10/13/2017	1,200,000	1,196,689
0.968%**, 10/20/2017	2,000,000	1,994,111
0.986%*, 8/22/2017	1,000,000	999,987
0.994%*, 7/18/2017	1,000,000	1,000,000
1.004%**, 10/20/2017	650,000	648,016
1.042%*, 5/30/2018	1,000,000	1,000,000
1.049%**, 9/15/2017	1,000,000	997,815
1.051%*, 1/23/2018	1,000,000	999,999
1.053%**, 11/17/2017	1,000,000	995,988
1.064%*, 3/8/2018	750,000	750,000
1.095%**, 10/27/2017	1,000,000	996,460
Federal Home Loan Mortgage Corp.:		
0.7%**, 10/2/2017	1,500,000	1,497,326
0.862%**, 8/24/2017	1,250,000	1,248,406
0.862%**, 8/24/2017	1,750,000	1,747,769
0.905%*, 8/10/2018	500,000	500,000
0.905%*, 10/10/2018	1,000,000	1,000,000
0.937%*, 12/22/2017	750,000	750,000
0.972%*, 2/22/2018	1,000,000	1,000,000
1.014%**, 10/23/2017	1,500,000	1,495,250
1.2%*, 12/21/2017	4,500,000	4,500,000
Federal National Mortgage Association, 1.128%*, 1/11/2018	1,500,000	1,502,543
Financing Corp., 0.794%**, 10/6/2017	1,816,000	1,812,166
		49,876,417
U.S. Treasury Obligations 38.8%		
U.S. Treasury Bills:		
0.671%**, 8/24/2017	1,000,000	999,007
1.029%**, 11/9/2017	500,000	498,153
U.S. Treasury Floating Rate Notes:		
1.073%*, 4/30/2019	1,000,000	1,000,344
1.08%*, 7/31/2017	35,000,000	35,003,787
1.173%*, 10/31/2018	1,500,000	1,503,523
1.193%*, 4/30/2018	2,500,000	2,500,052
1.275%*, 1/31/2018	5,000,000	5,004,937
U.S. Treasury Notes:		
0.875%, 8/15/2017	1,250,000	1,250,372
0.875%, 10/15/2017	1,200,000	1,199,852
		48,960,027
Total Government & Agency Obligations (Cost $98,836,444)		**98,836,444**
Repurchase Agreements 20.8%		
Nomura Securities International, 1.13%, dated 6/30/2017, to be repurchased at $20,001,883 on 7/3/2017 (a)	20,000,000	**20,000,000**
Wells Fargo Bank, 1.1%, dated 6/30/2017, to be repurchased at $6,300,578 on 7/3/2017 (b)	6,300,000	**6,300,000**
Total Repurchase Agreements (Cost $26,300,000)		**26,300,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $125,136,444)†	99.1	**125,136,444**
Other Assets and Liabilities, Net	0.9	**1,159,968**
Net Assets	100.0	**126,296,412**

* 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, 2017.

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

† The cost for federal income tax purposes was $125,136,444.

(a) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
29,321	Federal Home Loan Mortgage Corp.	5.0–7.5	12/1/2017–1/1/2025	29,861
19,733,053	Federal National Mortgage Association	2.5–4.0	7/1/2027–5/1/2047	20,370,139
Total Collateral Value				**20,400,000**

(b) Collateralized by $6,225,301 Federal National Mortgage Association, 3.5%, maturing on 5/1/2047 with a value of $6,426,001.

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. 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, 2017 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 (c)	$ —	$ 98,836,444	$ —	$ 98,836,444
Repurchase Agreements	—	26,300,000	—	26,300,000
Total	**$ —**	**$125,136,444**	**$ —**	**$125,136,444**

There have been no transfers between fair value measurement levels during the period ended June 30, 2017.

(c) 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, 2017 (Unaudited)

Assets		
Investments:		
Investments in securities, valued at amortized cost	$	98,836,444
Repurchase agreements, valued at amortized cost		26,300,000
Total investments in securities, valued at amortized cost		125,136,444
Cash		28,007
Receivable for Fund shares sold		1,235,305
Interest receivable		112,400
Other assets		1,098
Total assets		126,513,254
Liabilities		
Payable for Fund shares redeemed		18,837
Distributions payable		29,085
Accrued management fee		25,688
Accrued Trustees' fees		382
Other accrued expenses and payables		142,850
Total liabilities		216,842
Net assets, at value	**$**	**126,296,412**
Net Assets Consist of		
Undistributed net investment income		14,910
Paid-in capital		126,281,502
Net assets, at value	**$**	**126,296,412**
Class A		
Net Asset Value, offering and redemption price per share ($126,296,412 ÷ 126,365,218 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**1.00**

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income		
Income:		
Interest	$	466,496
Expenses:		
Management fee		143,806
Administration fee		61,194
Services to shareholders		1,600
Custodian fee		5,779
Professional fees		26,902
Reports to shareholders		48,425
Trustees' fee and expenses		3,830
Other		5,556
Total expenses		297,092
Net investment income		**169,404**
Net increase (decrease) in net assets resulting from operations	**$**	**169,404**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income	$ 169,404	$ 63,700
Net realized gain (loss)	—	14,243
Net increase (decrease) in net assets resulting from operations	169,404	77,943
Distributions to shareholders from:		
Net investment income		
Class A	(169,409)	(63,706)
Fund share transactions:		
Class A		
Proceeds from shares sold	49,908,664	122,352,015
Reinvestment of distributions	142,353	62,278
Cost of shares redeemed	(46,160,284)	(134,243,063)
Net increase (decrease) in net assets from Class A share transactions	3,890,733	(11,828,770)
Increase (decrease) in net assets	3,890,728	(11,814,533)
Net assets at beginning of period	122,405,684	134,220,217
Net assets at end of period (including undistributed net investment income of $14,910 and $14,915, respectively)	**$ 126,296,412**	**$ 122,405,684**

Other Information		
Class A		
Shares outstanding at beginning of period	122,474,485	134,303,255
Shares sold	49,908,664	122,352,015
Shares issued to shareholders in reinvestment of distributions	142,353	62,278
Shares redeemed	(46,160,284)	(134,243,063)
Net increase (decrease) in Class A shares	3,890,733	(11,828,770)
Shares outstanding at end of period	**126,365,218**	**122,474,485**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
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	.001	.001[b]	.000***	.000***	.000***	.000***
Net realized gain (loss)	—	.000***	(.000)***	.000***	.000***	.000***
Total from investment operations	.001	.001	.000***	.000***	.000***	.000***
Less distributions from:						
Net investment income	(.001)	(.001)	(.000)***	(.000)***	(.000)***	(.000)***
Net asset value, end of period	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**
Total Return (%)	.13**	.05[a,b]	.01[a]	.01[a]	.01[a]	.01[a]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	126	122	134	177	174	196
Ratio of expenses before expense reductions (%)[c]	.49*	.51	.49	.49	.49	.45
Ratio of expenses after expense reductions (%)[c]	.49*	.44	.25	.18	.20	.31
Ratio of net investment income (%)	.28*	.05[b]	.01	.01	.01	.01

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

b Includes a non-recurring payment for overbilling of prior years' custodian out-of-pocket fees. Excluding this payment, net investment income per share, total return, and ratio of net investment income to average net assets would have been reduced by $0.0004, 0.04%, and 0.04%, respectively.

c Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

*** Amount is less than $.0005.

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Government 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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, 2017, the Fund held repurchase agreements with a gross value of $26,300,000. 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, 2016 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Net investment income of the Fund is declared as a daily dividend and is distributed to shareholders monthly. The Fund may take into account capital gains and losses in its daily dividend declarations. The Fund may also make additional distributions for tax purposes if necessary.

Permanent book and tax differences relating to shareholder distributions will result in reclassifications to paid-in capital. Temporary book and tax differences will reverse in a subsequent period. There were no significant book to tax differences for the Fund.

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

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

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

Other. Investment transactions are accounted for on a trade date. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are recorded on an identified cost basis. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes.

B. Related Parties

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

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays 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, 2017 through September 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 0.51%.

Accordingly, for the six months ended June 30, 2017, the fee pursuant to the Investment Management Agreement aggregated $143,806, of which $25,688 is unpaid, resulting in an annualized effective rate of 0.235% 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, 2017, the Administration Fee was $61,194, of which $10,931 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, 2017, the amounts charged to the Fund by DSC aggregated $1,316, of which $723 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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under “Reports to shareholders” aggregated $5,286, all of which is unpaid.

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

C. Ownership of the Fund

At June 30, 2017, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 53%, 18% and 14%.

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, 2017.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,001.30
Expenses Paid per $1,000*	$ 2.43
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,022.36
Expenses Paid per $1,000*	$ 2.46

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Government Money Market VIP	.49%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Government Money Market VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's gross performance (Class A shares) was in the 1st quartile and 2nd quartile, respectively, of the applicable iMoneyNet universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board noted that the Fund's strategy was changed during the year in order to permit the Fund to operate as a "government money market fund" under applicable Securities and Exchange Commission rules.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). The Board considered that the Fund's management fee was reduced by 0.05% at all breakpoint levels in connection with the restructuring of the Fund 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

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Deutsche
Asset Management

VS2GMM-3 (R-028387-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series II

Deutsche High Income VIP

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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.

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.

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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Performance Summary

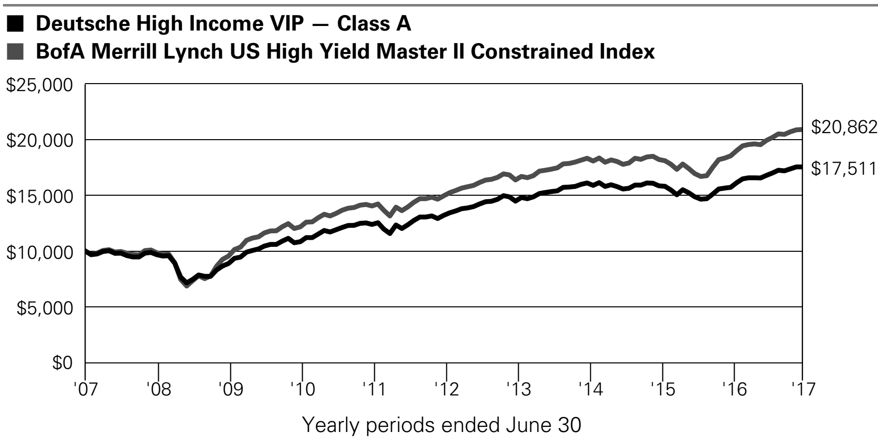
June 30, 2017 (Unaudited)

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, 2017 are 0.80% and 1.21% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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.

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	$10,446	$11,157	$10,888	$13,277	$17,511
	Average annual total return	4.46%	11.57%	2.88%	5.83%	5.76%
BofA Merrill Lynch US High Yield Master II Constrained Index	Growth of $10,000	$10,490	$11,274	$11,409	$13,973	$20,862
	Average annual total return	4.90%	12.74%	4.49%	6.92%	7.63%

Deutsche High Income VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,419	$11,125	$10,753	$13,053	$16,986
	Average annual total return	4.19%	11.25%	2.45%	5.47%	5.44%
BofA Merrill Lynch US High Yield Master II Constrained Index	Growth of $10,000	$10,490	$11,274	$11,409	$13,973	$20,862
	Average annual total return	4.90%	12.74%	4.49%	6.92%	7.63%

The growth of $10,000 is cumulative.

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

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/17**	**12/31/16**
Corporate Bonds	91%	93%
Cash Equivalents	6%	5%
Convertible Bond	2%	1%
Government & Agency Obligations	1%	1%
Common Stocks	0%	0%
Warrant	0%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Government & Agency Obligations, Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
Consumer Discretionary	27%	27%
Materials	18%	16%
Energy	16%	18%
Telecommunication Services	11%	13%
Industrials	7%	7%
Health Care	6%	6%
Information Technology	5%	3%
Utilities	4%	4%
Consumer Staples	3%	2%
Real Estate	2%	2%
Financials	1%	2%
	100%	100%

Quality (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
AAA	1%	1%
BBB	7%	9%
BB	53%	57%
B	34%	30%
CCC	5%	3%
Not Rated	—	0%
	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, Managing Director

Thomas R. Bouchard, Director

Portfolio Managers

		Principal Amount ($)(a)	Value ($)
Corporate Bonds 90.4%			
Consumer Discretionary 24.9%			
1011778 B.C. Unlimited Liability Co., 144A, 4.25%, 5/15/2024		280,000	278,233
Adient Global Holdings Ltd.:			
REG S, 3.5%, 8/15/2024	EUR	390,000	451,741
144A, 4.875%, 8/15/2026		340,000	340,850
Ally Financial, Inc., 5.75%, 11/20/2025 (b)		150,000	157,875
Altice Financing SA:			
144A, 6.5%, 1/15/2022		200,000	209,000
144A, 7.5%, 5/15/2026		785,000	871,350
Altice U.S. Finance I Corp., 144A, 5.5%, 5/15/2026		480,000	504,000
American Axle & Manufacturing, Inc.:			
144A, 6.25%, 4/1/2025 (b)		300,000	292,500
144A, 6.5%, 4/1/2027 (b)		380,000	369,550
Asbury Automotive Group, Inc., 6.0%, 12/15/2024		885,000	900,487
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021		360,000	367,200
Beacon Roofing Supply, Inc., 6.375%, 10/1/2023		160,000	172,000
Boyd Gaming Corp., 6.875%, 5/15/2023		140,000	149,800
CalAtlantic Group, Inc., 5.0%, 6/15/2027		70,000	70,175
Caleres, Inc., 6.25%, 8/15/2023		110,000	114,675
Carlson Travel, Inc.:			
144A, 6.75%, 12/15/2023		200,000	203,500
144A, 9.5%, 12/15/2024		400,000	409,500
CCO Holdings LLC:			
144A, 5.125%, 5/1/2027		345,000	352,762
144A, 5.5%, 5/1/2026		660,000	700,425
144A, 5.875%, 4/1/2024		235,000	250,863
144A, 5.875%, 5/1/2027		480,000	513,000
Cequel Communications Holdings I LLC, 144A, 5.125%, 12/15/2021		602,000	612,535
Clear Channel Worldwide Holdings, Inc.:			
Series A, 6.5%, 11/15/2022		250,000	255,000
Series B, 6.5%, 11/15/2022		365,000	375,110
Series A, 7.625%, 3/15/2020		110,000	108,350
CSC Holdings LLC:			
5.25%, 6/1/2024		585,000	596,758
144A, 5.5%, 4/15/2027		755,000	798,412
144A, 10.125%, 1/15/2023		400,000	464,000
144A, 10.875%, 10/15/2025		275,000	331,031
Cumberland Farms, Inc., 144A, 6.75%, 5/1/2025		68,000	71,570
Dana Financing Luxembourg Sarl:			
144A, 5.75%, 4/15/2025		435,000	450,225
144A, 6.5%, 6/1/2026		385,000	409,784
Dana, Inc., 5.5%, 12/15/2024		180,000	186,750
DISH DBS Corp.:			
5.875%, 7/15/2022		600,000	645,000
5.875%, 11/15/2024		200,000	213,394
6.75%, 6/1/2021		450,000	499,500
Dollar Tree, Inc., 5.25%, 3/1/2020		420,000	431,550

	Principal Amount ($)(a)	Value ($)
Eldorado Resorts, Inc., 144A, 6.0%, 4/1/2025	145,000	153,700
Fiat Chrysler Automobiles NV, 5.25%, 4/15/2023 (b)	245,000	249,288
Goodyear Tire & Rubber Co.:		
5.0%, 5/31/2026	165,000	170,775
5.125%, 11/15/2023	165,000	172,838
Group 1 Automotive, Inc.:		
5.0%, 6/1/2022	455,000	461,825
144A, 5.25%, 12/15/2023	545,000	550,450
HD Supply, Inc., 144A, 5.75%, 4/15/2024	120,000	127,500
Hot Topic, Inc., 144A, 9.25%, 6/15/2021 (b)	140,000	134,400
KFC Holding Co., 144A, 4.75%, 6/1/2027	145,000	148,081
Lennar Corp.:		
4.125%, 1/15/2022	275,000	284,281
4.75%, 11/15/2022	400,000	425,000
MDC Partners, Inc., 144A, 6.5%, 5/1/2024 (b)	195,000	194,513
Mediacom Broadband LLC, 6.375%, 4/1/2023	225,000	235,100
NCL Corp., Ltd., 144A, 4.75%, 12/15/2021	160,000	166,078
Nielsen Finance LLC, 144A, 5.0%, 4/15/2022	155,000	160,813
Penn National Gaming, Inc., 144A, 5.625%, 1/15/2027	110,000	112,063
Penske Automotive Group, Inc., 5.5%, 5/15/2026	225,000	223,875
PetSmart, Inc., 144A, 5.875%, 6/1/2025	90,000	86,738
Quebecor Media, Inc., 5.75%, 1/15/2023	205,000	216,275
Rivers Pittsburgh Borrower LP, 144A, 6.125%, 8/15/2021	70,000	71,050
Sally Holdings LLC, 5.625%, 12/1/2025	195,000	199,631
Scientific Games International, Inc., 144A, 7.0%, 1/1/2022	705,000	750,825
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	125,000	125,625
SFR Group SA, 144A, 7.375%, 5/1/2026	840,000	911,400
Sonic Automotive, Inc., 144A, 6.125%, 3/15/2027	130,000	129,350
Suburban Propane Partners LP, 5.75%, 3/1/2025	145,000	143,550
Toll Brothers Finance Corp.:		
4.875%, 11/15/2025	520,000	539,500
4.875%, 3/15/2027	450,000	463,500
TRI Pointe Group, Inc., 5.25%, 6/1/2027	185,000	185,463
Unitymedia Hessen GmbH & Co., KG, 144A, 5.5%, 1/15/2023	400,500	415,519
UPCB Finance IV Ltd., 144A, 5.375%, 1/15/2025	955,000	999,169
Viacom, Inc.:		
5.875%, 2/28/2057	85,000	88,400
6.25%, 2/28/2057	10,000	10,400
Viking Cruises Ltd.:		
144A, 6.25%, 5/15/2025	240,000	241,800
144A, 8.5%, 10/15/2022	205,000	215,250

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

	Principal Amount ($)(a)	Value ($)
Virgin Media Secured Finance PLC:		
144A, 5.25%, 1/15/2026	200,000	208,162
144A, 5.5%, 8/15/2026	215,000	225,213
WMG Acquisition Corp., 144A, 5.0%, 8/1/2023	105,000	107,625
		24,433,480
Consumer Staples 2.5%		
B&G Foods, Inc., 5.25%, 4/1/2025	445,000	453,900
Chobani LLC, 144A, 7.5%, 4/15/2025	50,000	52,813
Cott Beverages, Inc., 5.375%, 7/1/2022	445,000	461,131
FAGE International SA, 144A, 5.625%, 8/15/2026	420,000	432,516
First Quality Finance Co., Inc., 144A, 5.0%, 7/1/2025	175,000	178,500
JBS Investments GmbH, 144A, 7.25%, 4/3/2024	496,000	442,680
JBS U.S.A. LUX SA, 144A, 5.75%, 6/15/2025	290,000	272,600
Post Holdings, Inc., 144A, 5.5%, 3/1/2025	130,000	134,062
		2,428,202
Energy 15.0%		
Antero Midstream Partners LP, 144A, 5.375%, 9/15/2024	170,000	173,825
Antero Resources Corp.:		
5.125%, 12/1/2022	330,000	330,719
5.375%, 11/1/2021	250,000	252,500
5.625%, 6/1/2023	60,000	60,750
Blue Racer Midstream LLC, 144A, 6.125%, 11/15/2022	405,000	408,037
Carrizo Oil & Gas, Inc.:		
6.25%, 4/15/2023 (b)	115,000	110,688
8.25%, 7/15/2025 (c)	140,000	143,150
Cheniere Corpus Christi Holdings LLC:		
144A, 5.125%, 6/30/2027	315,000	322,875
5.875%, 3/31/2025	225,000	239,906
7.0%, 6/30/2024	650,000	723,125
Chesapeake Energy Corp., 144A, 8.0%, 6/15/2027 (b)	80,000	78,600
Continental Resources, Inc.:		
3.8%, 6/1/2024	400,000	366,248
4.5%, 4/15/2023 (b)	350,000	334,250
5.0%, 9/15/2022	568,000	557,350
Crestwood Midstream Partners LP:		
144A, 5.75%, 4/1/2025	170,000	169,575
6.25%, 4/1/2023	400,000	406,000
Diamondback Energy, Inc., 144A, 4.75%, 11/1/2024	340,000	338,300
Gulfport Energy Corp.:		
144A, 6.0%, 10/15/2024	85,000	82,663
144A, 6.375%, 5/15/2025	140,000	137,900
Hilcorp Energy I LP:		
144A, 5.0%, 12/1/2024	295,000	271,400
144A, 5.75%, 10/1/2025	335,000	315,737
Holly Energy Partners LP, 144A, 6.0%, 8/1/2024	215,000	223,600
Laredo Petroleum, Inc.:		
5.625%, 1/15/2022	100,000	97,000
6.25%, 3/15/2023 (b)	295,000	292,788
MEG Energy Corp.:		
144A, 6.375%, 1/30/2023	755,000	583,237
144A, 6.5%, 1/15/2025 (b)	324,000	294,840
Murphy Oil U.S.A., Inc., 5.625%, 5/1/2027	90,000	93,600
Newfield Exploration Co., 5.375%, 1/1/2026	335,000	346,725
NuStar Logistics LP, 5.625%, 4/28/2027	326,000	342,300
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	55,000	53,350
6.875%, 3/15/2022 (b)	225,000	218,250
6.875%, 1/15/2023	80,000	77,400
Parsley Energy LLC:		
144A, 5.25%, 8/15/2025	75,000	74,813
144A, 5.375%, 1/15/2025	120,000	120,900
PDC Energy, Inc., 144A, 6.125%, 9/15/2024	210,000	213,150
Peabody Energy Corp.:		
144A, 6.0%, 3/31/2022	30,000	29,775
144A, 6.375%, 3/31/2025	245,000	241,325
Range Resources Corp.:		
4.875%, 5/15/2025	175,000	166,250
144A, 5.0%, 8/15/2022	350,000	343,875
144A, 5.875%, 7/1/2022	195,000	197,925
Rice Energy, Inc., 7.25%, 5/1/2023	250,000	269,375
Summit Midstream Holdings LLC, 5.75%, 4/15/2025	85,000	85,425
Sunoco LP:		
5.5%, 8/1/2020	130,000	133,250
6.375%, 4/1/2023	590,000	619,972
Targa Resources Partners LP, 144A, 5.375%, 2/1/2027	460,000	476,100
Tesoro Corp.:		
144A, 4.75%, 12/15/2023	105,000	113,138
144A, 5.125%, 12/15/2026	245,000	266,614
Tesoro Logistics LP:		
5.25%, 1/15/2025	365,000	383,250
6.375%, 5/1/2024	180,000	194,850
Trinidad Drilling Ltd., 144A, 6.625%, 2/15/2025	70,000	66,500
Weatherford International Ltd.:		
4.5%, 4/15/2022 (b)	430,000	379,475
8.25%, 6/15/2023 (b)	100,000	100,000
144A, 9.875%, 2/15/2024	305,000	318,725
Whiting Petroleum Corp., 5.75%, 3/15/2021 (b)	395,000	371,300
WildHorse Resource Development Corp., 144A, 6.875%, 2/1/2025	70,000	65,800
WPX Energy, Inc.:		
5.25%, 9/15/2024	200,000	190,000
6.0%, 1/15/2022	300,000	297,000
7.5%, 8/1/2020	150,000	157,500
8.25%, 8/1/2023	295,000	320,075
		14,643,050
Financials 0.4%		
Lincoln Finance Ltd., 144A, 7.375%, 4/15/2021	105,000	111,300
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020	220,000	222,200
Tempo Acquisition LLC, 144A, 6.75%, 6/1/2025	105,000	107,363
		440,863
Health Care 5.9%		
Alere, Inc., 144A, 6.375%, 7/1/2023	185,000	198,644
Endo Dac, 144A, 6.0%, 7/15/2023	195,000	163,898

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

	Principal Amount ($)(a)	Value ($)
HCA, Inc.:		
4.5%, 2/15/2027	503,000	517,461
4.75%, 5/1/2023	500,000	528,750
5.25%, 6/15/2026	385,000	415,222
5.5%, 6/15/2047	115,000	119,025
5.875%, 2/15/2026	530,000	572,400
Hill-Rom Holdings, Inc., 144A, 5.0%, 2/15/2025	105,000	107,100
Hologic, Inc., 144A, 5.25%, 7/15/2022	90,000	94,500
LifePoint Health, Inc., 5.5%, 12/1/2021	125,000	129,375
Mallinckrodt International Finance SA, 144A, 5.625%, 10/15/2023 (b)	135,000	123,188
Tenet Healthcare Corp.:		
144A, 4.625%, 7/15/2024	160,000	160,200
4.746%**, 6/15/2020	180,000	181,800
144A, 7.5%, 1/1/2022	135,000	146,448
THC Escrow Corp. III:		
144A, 4.625%, 7/15/2024	200,000	200,540
144A, 5.125%, 5/1/2025	140,000	140,525
Valeant Pharmaceuticals International, Inc.:		
144A, 5.375%, 3/15/2020 (b)	365,000	352,681
144A, 5.875%, 5/15/2023	235,000	201,513
144A, 6.125%, 4/15/2025	205,000	173,481
144A, 6.5%, 3/15/2022	145,000	152,069
144A, 7.0%, 3/15/2024	350,000	367,937
144A, 7.5%, 7/15/2021	750,000	726,562
		5,773,319
Industrials 6.7%		
Allegion PLC, 5.875%, 9/15/2023	85,000	91,163
Belden, Inc., 144A, 5.5%, 9/1/2022	355,000	365,650
Bombardier, Inc.:		
144A, 5.75%, 3/15/2022	315,000	313,425
144A, 6.0%, 10/15/2022	265,000	265,000
144A, 8.75%, 12/1/2021	63,000	69,930
Booz Allen Hamilton, Inc., 144A, 5.125%, 5/1/2025	35,000	34,388
Covanta Holding Corp.:		
5.875%, 3/1/2024	220,000	214,500
5.875%, 7/1/2025	120,000	116,400
EnerSys, 144A, 5.0%, 4/30/2023	45,000	46,294
FTI Consulting, Inc., 6.0%, 11/15/2022	205,000	212,687
GFL Environmental, Inc., 144A, 5.625%, 5/1/2022	115,000	117,588
Kenan Advantage Group, Inc., 144A, 7.875%, 7/31/2023	220,000	231,000
Koppers, Inc., 144A, 6.0%, 2/15/2025	295,000	313,437
Masonite International Corp., 144A, 5.625%, 3/15/2023	220,000	229,900
Moog, Inc., 144A, 5.25%, 12/1/2022	165,000	171,600
Novelis Corp.:		
144A, 5.875%, 9/30/2026	615,000	633,450
144A, 6.25%, 8/15/2024	195,000	204,750
Oshkosh Corp., 5.375%, 3/1/2025	25,000	26,250
Park Aerospace Holdings Ltd.:		
144A, 5.25%, 8/15/2022	250,000	261,330
144A, 5.5%, 2/15/2024	335,000	349,907
Ply Gem Industries, Inc., 6.5%, 2/1/2022	506,000	528,955
Prime Security Services Borrower LLC, 144A, 9.25%, 5/15/2023	25,000	27,167
Ritchie Bros Auctioneers, Inc., 144A, 5.375%, 1/15/2025	130,000	135,525
Summit Materials LLC:		
144A, 5.125%, 6/1/2025	40,000	41,000
6.125%, 7/15/2023	275,000	288,062
8.5%, 4/15/2022	95,000	107,350
Tennant Co., 144A, 5.625%, 5/1/2025	40,000	42,000
United Rentals North America, Inc.:		
5.5%, 5/15/2027	170,000	175,100
5.875%, 9/15/2026	233,000	248,145
6.125%, 6/15/2023	25,000	26,031
USG Corp., 144A, 4.875%, 6/1/2027	230,000	236,612
Welbilt, Inc., 9.5%, 2/15/2024	93,000	107,880
WESCO Distribution, Inc., 5.375%, 6/15/2024	190,000	198,313
XPO Logistics, Inc., 144A, 6.125%, 9/1/2023	85,000	88,506
		6,519,295
Information Technology 3.8%		
Cardtronics, Inc.:		
5.125%, 8/1/2022	145,000	147,175
144A, 5.5%, 5/1/2025	255,000	262,650
CDK Global, Inc., 144A, 4.875%, 6/1/2027	60,000	61,650
CDW LLC, 5.0%, 9/1/2025	130,000	134,875
Change Healthcare Holdings LLC, 144A, 5.75%, 3/1/2025	290,000	295,800
Dell International LLC:		
144A, 5.875%, 6/15/2021	150,000	157,125
144A, 7.125%, 6/15/2024 (b)	300,000	329,777
First Data Corp., 144A, 7.0%, 12/1/2023	525,000	560,437
Gartner, Inc., 144A, 5.125%, 4/1/2025	85,000	89,285
j2 Cloud Services LLC, 144A, 6.0%, 7/15/2025	170,000	175,100
Match Group, Inc., 6.375%, 6/1/2024	120,000	130,500
Netflix, Inc.:		
144A, 4.375%, 11/15/2026	250,000	249,375
5.875%, 2/15/2025	165,000	182,738
Riverbed Technology, Inc., 144A, 8.875%, 3/1/2023	155,000	157,519
Symantec Corp., 144A, 5.0%, 4/15/2025	220,000	230,243
Western Digital Corp.:		
144A, 7.375%, 4/1/2023	350,000	384,562
10.5%, 4/1/2024	168,000	198,186
		3,746,997
Materials 15.0%		
AK Steel Corp.:		
7.0%, 3/15/2027 (b)	865,000	893,112
7.5%, 7/15/2023	200,000	216,000
Alpha 3 BV, 144A, 6.25%, 2/1/2025	200,000	205,750
Anglo American Capital PLC:		
144A, 3.75%, 4/10/2022	400,000	402,000
144A, 4.75%, 4/10/2027	200,000	205,460
144A, 4.875%, 5/14/2025	600,000	624,000
Ardagh Packaging Finance PLC:		
144A, 6.0%, 2/15/2025	640,000	672,000
144A, 7.25%, 5/15/2024	290,000	317,187

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

		Principal Amount ($)(a)	Value ($)
Axalta Coating Systems LLC, 144A, 4.875%, 8/15/2024		150,000	154,875
Ball Corp., 4.375%, 12/15/2020		110,000	115,500
Berry Plastics Corp., 5.5%, 5/15/2022		435,000	452,944
BWAY Holding Co., 144A, 5.5%, 4/15/2024		490,000	500,412
Cascades, Inc., 144A, 5.5%, 7/15/2022		145,000	147,900
Chemours Co.:			
5.375%, 5/15/2027		295,000	304,555
6.625%, 5/15/2023		265,000	280,238
7.0%, 5/15/2025		80,000	87,200
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025		175,000	173,688
Constellium NV:			
144A, 4.625%, 5/15/2021	EUR	150,000	170,507
144A, 5.75%, 5/15/2024		250,000	231,250
144A, 6.625%, 3/1/2025 (b)		250,000	239,375
144A, 7.875%, 4/1/2021		500,000	535,000
FMG Resources (August 2006) Pty Ltd., 144A, 5.125%, 5/15/2024		140,000	140,000
Freeport-McMoRan, Inc.:			
3.55%, 3/1/2022		330,000	309,269
3.875%, 3/15/2023 (b)		300,000	279,000
4.0%, 11/14/2021 (b)		250,000	244,375
5.45%, 3/15/2043		170,000	146,591
6.875%, 2/15/2023		200,000	211,124
Hexion, Inc.:			
6.625%, 4/15/2020		320,000	292,000
144A, 10.375%, 2/1/2022		55,000	54,450
Hudbay Minerals, Inc.:			
144A, 7.25%, 1/15/2023		245,000	252,656
144A, 7.625%, 1/15/2025		70,000	73,325
Huntsman International LLC, 4.25%, 4/1/2025	EUR	150,000	196,477
Kaiser Aluminum Corp., 5.875%, 5/15/2024		200,000	210,500
Mercer International, Inc., 144A, 6.5%, 2/1/2024		150,000	156,629
NOVA Chemicals Corp.:			
144A, 4.875%, 6/1/2024 (b)		505,000	503,106
144A, 5.25%, 6/1/2027		330,000	328,350
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021		250,000	258,125
Reynolds Group Issuer, Inc.:			
144A, 5.125%, 7/15/2023		400,000	415,500
144A, 7.0%, 7/15/2024		45,000	48,272
Sealed Air Corp.:			
144A, 4.875%, 12/1/2022		115,000	122,475
144A, 5.125%, 12/1/2024		55,000	58,988
Teck Resources Ltd.:			
3.75%, 2/1/2023		400,000	389,500
4.75%, 1/15/2022		759,000	785,565
6.125%, 10/1/2035		450,000	469,125
6.25%, 7/15/2041		450,000	466,875
Tronox Finance LLC, 6.375%, 8/15/2020		500,000	501,250
United States Steel Corp., 144A, 8.375%, 7/1/2021		510,000	561,000
WR Grace & Co-Conn:			
144A, 5.125%, 10/1/2021		90,000	96,525
144A, 5.625%, 10/1/2024		170,000	181,688
			14,681,693

	Principal Amount ($)(a)	Value ($)
Real Estate 2.0%		
CyrusOne LP:		
144A, (REIT), 5.0%, 3/15/2024	125,000	128,750
144A, (REIT), 5.375%, 3/15/2027	155,000	161,394
Equinix, Inc.:		
(REIT), 5.375%, 5/15/2027	440,000	469,150
(REIT), 5.75%, 1/1/2025	170,000	182,963
(REIT), 5.875%, 1/15/2026	135,000	147,192
Howard Hughes Corp., 144A, 5.375%, 3/15/2025	505,000	516,362
MPT Operating Partnership LP:		
(REIT), 5.25%, 8/1/2026	50,000	51,980
(REIT), 6.375%, 3/1/2024	235,000	255,593
VEREIT Operating Partnership LP, (REIT), 4.875%, 6/1/2026	85,000	89,859
		2,003,243
Telecommunication Services 10.4%		
CenturyLink, Inc.:		
Series W, 6.75%, 12/1/2023	250,000	269,220
Series Y, 7.5%, 4/1/2024	235,000	257,325
CommScope Technologies LLC, 144A, 5.0%, 3/15/2027	140,000	139,650
Digicel Ltd., 144A, 6.75%, 3/1/2023	390,000	366,729
Frontier Communications Corp.:		
6.25%, 9/15/2021 (b)	640,000	571,200
7.125%, 1/15/2023	605,000	503,662
10.5%, 9/15/2022	340,000	325,125
Hughes Satellite Systems Corp., 7.625%, 6/15/2021	230,000	261,338
Intelsat Jackson Holdings SA:		
7.25%, 10/15/2020	300,000	283,500
144A, 8.0%, 2/15/2024 (b)	452,000	487,030
144A, 9.75%, 7/15/2025 (c)	260,000	259,675
Sprint Capital Corp., 8.75%, 3/15/2032	325,000	409,500
Sprint Communications, Inc., 7.0%, 8/15/2020	175,000	192,500
Sprint Corp.:		
7.125%, 6/15/2024	1,745,000	1,941,312
7.625%, 2/15/2025 (b)	375,000	431,719
T-Mobile U.S.A., Inc.:		
6.0%, 4/15/2024	899,000	961,930
6.375%, 3/1/2025	497,000	537,381
6.5%, 1/15/2026	15,000	16,556
Telecom Italia Capital SA, 7.2%, 7/18/2036	225,000	260,859
Telesat Canada, 144A, 8.875%, 11/15/2024	180,000	202,050
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	195,000	201,825
Zayo Group LLC:		
144A, 5.75%, 1/15/2027	275,000	287,719
6.0%, 4/1/2023	530,000	557,825
6.375%, 5/15/2025	386,000	416,637
		10,142,267
Utilities 3.8%		
AmeriGas Partners LP:		
5.5%, 5/20/2025	325,000	331,500
5.75%, 5/20/2027	305,000	308,812
Calpine Corp., 5.75%, 1/15/2025	120,000	112,500

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

	Principal Amount ($)(a)	Value ($)
Dynegy, Inc.:		
5.875%, 6/1/2023	125,000	116,875
7.375%, 11/1/2022 (b)	830,000	819,625
7.625%, 11/1/2024 (b)	105,000	101,850
NGL Energy Partners LP, 5.125%, 7/15/2019	190,000	188,575
NRG Energy, Inc.:		
6.25%, 7/15/2022	1,000,000	1,026,250
6.625%, 1/15/2027	260,000	260,325
7.25%, 5/15/2026	385,000	398,475
7.875%, 5/15/2021	20,000	20,650
		3,685,437
Total Corporate Bonds (Cost $85,828,130)		**88,497,846**

Government & Agency Obligation 1.1%

U.S. Treasury Obligation

U.S. Treasury Note, 0.75%, 10/31/2017 (Cost $1,100,172)	1,100,000	**1,098,746**

Convertible Bond 1.5%

Materials

GEO Specialty Chemicals, Inc., 144A, 7.5%, 10/30/2018 (PIK) (Cost $1,439,816)	1,453,183	**1,434,270**

	Shares	Value ($)
Common Stocks 0.1%		
Industrials 0.0%		
Quad Graphics, Inc.	249	**5,707**
Materials 0.1%		
GEO Specialty Chemicals, Inc.*	144,027	54,572
GEO Specialty Chemicals, Inc., 144A*	2,206	836
		55,408
Total Common Stocks (Cost $292,150)		**61,115**

Warrant 0.0%

Materials

Hercules Trust II, Expiration Date 3/31/2029* (Cost $244,286)	1,100	**36,471**

Securities Lending Collateral 8.4%

Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (d) (e) (Cost $8,222,973)	8,222,973	**8,222,973**

Cash Equivalents 6.1%

Deutsche Central Cash Management Government Fund, 1.03% (d) (Cost $5,998,425)	5,998,425	**5,998,425**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $103,125,952)†	107.6	**105,349,846**
Other Assets and Liabilities, Net	(7.6)	**(7,429,515)**
Net Assets	100.0	**97,920,331**

* 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, 2017.

† The cost for federal income tax purposes was $103,125,952. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $2,223,894. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,377,269 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,153,375.

(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, 2017 amounted to $7,923,185, which is 8.1% of net assets.

(c) When-issued security.

(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.

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

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

REIT: Real Estate Investment Trust

At June 30, 2017, open credit default swap contracts sold were as follows:

Bilateral Swaps

Expiration Dates	Notional Amount ($) (f)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (g)	Value ($)	Upfront Payments Paid ($)	Unrealized Appreciation ($)
3/20/2019	1,500,000[1]	5.0%	Sprint Communications, Inc., 7.0%, 8/15/2020, B	111,818	53,465	**58,353**

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

(f) 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.

(g) 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.

Counterparty:

[1] Goldman Sachs & Co.

As of June 30, 2017, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	10,028	EUR	8,780	7/31/2017	**17**	Citigroup, Inc.

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
EUR	742,891	USD	839,976	7/31/2017	**(9,951)**	Citigroup, Inc.

Currency Abbreviations			
EUR	Euro	USD	United States Dollar

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

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, 2017 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed Income Investments (h)				
Corporate Bonds	$ —	$ 88,497,846	$ —	$ 88,497,846
Government & Agency Obligation	—	1,098,746	—	1,098,746
Convertible Bond	—	—	1,434,270	1,434,270
Common Stocks (h)	5,707	—	55,408	61,115
Warrant	—	—	36,471	36,471
Short-Term Investments (h)	14,221,398	—	—	14,221,398
Derivatives (i)				
Credit Default Swap Contracts	—	58,353	—	58,353
Forward Foreign Currency Exchange Contracts	—	17	—	17
Total	**$ 14,227,105**	**$ 89,654,962**	**$ 1,526,149**	**$105,408,216**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (i)				
Forward Foreign Currency Exchange Contracts	$ —	$ (9,951)	$ —	$ (9,951)
Total	**$ —**	**$ (9,951)**	**$ —**	**$ (9,951)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2017.

(h) See Investment Portfolio for additional detailed categorizations.

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

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

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Convertible Bonds	Common Stocks	Warrant	Total
Balance as of December 31, 2016	$ 1,459,104	$ 57,426	$ 4,994	**$1,521,524**
Realized gains (loss)	—	—	—	—
Change in unrealized appreciation (depreciation)	(56,163)	(2,018)	31,477	**(26,704)**
Amortization of premium/accretion of discount	4,583	—	—	**4,583**
Purchases	26,746	—	—	**26,746**
(Sales)	—	—	—	—
Transfer into Level 3	—	—	—	—
Transfer (out) of Level 3	—	—	—	—
Balance as of June 30, 2017	**$ 1,434,270**	**$ 55,408**	**$ 36,471**	**$1,526,149**
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2017	**$ (56,163)**	**$ (2,018)**	**$ 31,477**	**$ (26,704)**

Quantitative Disclosure About Significant Unobservable Inputs

Asset Class	Fair Value at 6/30/17	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Common Stocks				
Materials	$ 55,408	Market Approach	EV/EBITDA Multiple	6.13%
			Discount to public comparables	20%
			Discount for lack of marketability	15%
Warrant				
Materials	$ 36,471	Black Scholes Option Pricing Model	Implied Volatility	27.59%
			Illiquidity Discount	20%
Convertible Bonds				
Materials	$ 1,434,270	Market Approach	EV/EBITDA Multiple	6.13%
			Discount to public comparables	20%
			Discount for lack of marketability	15%

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 and convertible bond 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 warrants include volatility and discount for lack of marketability. A change in the volatility of the underlying asset as an input to the Black-Scholes model may have a significant change in the fair value measurement. A significant change in the discount for lack of marketability is unlikely to have a material impact to the fair value measurement.

Statement of Assets and Liabilities

as of June 30, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $88,904,554) — including $7,923,185 of securities loaned	$	91,128,448
Investment in Deutsche Government & Agency Securities Portfolio (cost $8,222,973)*		8,222,973
Investment in Deutsche Central Cash Management Government Fund (cost $5,998,425)		5,998,425
Total investments in securities, at value (cost $103,125,952)		105,349,846
Foreign currency, at value (cost $10,258)		10,266
Receivable for investments sold — when-issued/delayed delivery securities		724,050
Receivable for Fund shares sold		5,084
Interest receivable		1,423,730
Unrealized appreciation on bilateral swap contracts		58,353
Unrealized appreciation on forward foreign currency exchange contracts		17
Upfront payments paid on bilateral swap contracts		53,465
Other assets		672
Total assets		107,625,483
Liabilities		
Payable upon return of securities loaned		8,222,973
Payable for investments purchased		48,048
Payable for investments purchased — when-issued/delayed delivery securities		1,120,000
Payable for Fund shares redeemed		168,912
Unrealized depreciation on forward foreign currency exchange contracts		9,951
Accrued management fee		36,160
Accrued Trustees' fees		30
Other accrued expenses and payables		99,078
Total liabilities		9,705,152
Net assets, at value	**$**	**97,920,331**
Net Assets Consist of		
Undistributed net investment income		2,441,723
Net unrealized appreciation (depreciation) on:		
Investments		2,223,894
Swap contracts		58,353
Foreign currency		(9,571)
Accumulated net realized gain (loss)		(25,635,556)
Paid-in capital		118,841,488
Net assets, at value	**$**	**97,920,331**
Class A		
Net Asset Value, offering and redemption price per share ($97,745,979 ÷ 15,822,862 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**6.18**
Class B		
Net Asset Value, offering and redemption price per share ($174,352 ÷ 28,106 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**6.20**

* Represents collateral on securities loaned.

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

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income		
Interest	$	2,854,137
Dividends		149
Income distributions — Deutsche Central Cash Management Government Fund		18,865
Securities lending income, net of borrower rebates		26,505
Total income		2,899,656
Expenses:		
Management fee		250,571
Administration fee		50,114
Services to shareholders		875
Recordkeeping fees (Class B)		845
Distribution service fee (Class B)		1,474
Custodian fee		3,169
Professional fees		46,183
Reports to shareholders		17,728
Trustees' fees and expenses		3,251
Other		20,117
Total expenses before expense reductions		394,327
Expense reductions		(30,279)
Total expenses after expense reductions		364,048
Net investment income (loss)		**2,535,608**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		1,252,429
Swap contracts		128,655
Foreign currency		(51,207)
		1,329,877
Change in net unrealized appreciation (depreciation) on:		
Investments		505,842
Swap contracts		21,837
Foreign currency		(5,585)
		522,094
Net gain (loss)		**1,851,971**
Net increase (decrease) in net assets resulting from operations	**$**	**4,387,579**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income	$ 2,535,608	$ 5,440,363
Net realized gain (loss)	1,329,877	(3,163,765)
Change in net unrealized appreciation (depreciation)	522,094	9,890,493
Net increase (decrease) in net assets resulting from operations	4,387,579	12,167,091
Distributions to shareholders from:		
Net investment income:		
Class A	(5,780,980)	(6,259,405)
Class B	(94,574)	(122,558)
Total distributions	(5,875,554)	(6,381,963)
Fund share transactions:		
Class A		
Proceeds from shares sold	10,608,255	15,011,086
Reinvestment of distributions	5,780,980	6,259,405
Payments for shares redeemed	(16,708,036)	(28,525,830)
Net increase (decrease) in net assets from Class A share transactions	(318,801)	(7,255,339)
Class B		
Proceeds from shares sold	84,102	5,848,785
Reinvestment of distributions	94,574	122,558
Payments for shares redeemed	(1,563,567)	(7,539,910)
Net increase (decrease) in net assets from Class B share transactions	(1,384,891)	(1,568,567)
Increase (decrease) in net assets	(3,191,667)	(3,038,778)
Net assets at beginning of period	101,111,998	104,150,776
Net assets at end of period (including undistributed net investment income of $2,441,723 and $5,781,669, respectively)	**$ 97,920,331**	**$ 101,111,998**

Other Information		
Class A		
Shares outstanding at beginning of period	15,845,238	17,025,372
Shares sold	1,675,969	2,525,843
Shares issued to shareholders in reinvestment of distributions	946,151	1,081,072
Shares redeemed	(2,644,496)	(4,787,049)
Net increase (decrease) in Class A shares	(22,376)	(1,180,134)
Shares outstanding at end of period	**15,822,862**	**15,845,238**
Class B		
Shares outstanding at beginning of period	254,095	530,185
Shares sold	13,076	990,197
Shares issued to shareholders in reinvestment of distributions	15,403	21,094
Shares redeemed	(254,468)	(1,287,381)
Net increase (decrease) in Class B shares	(225,989)	(276,090)
Shares outstanding at end of period	**28,106**	**254,095**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.28**	**$ 5.93**	**$ 6.60**	**$ 6.96**	**$ 6.93**	**$ 6.56**
Income (loss) from investment operations:						
Net investment income[a]	.16	.32	.32	.36	.39	.45
Net realized and unrealized gain (loss)	.12	.41	(.58)	(.25)	.14	.48
Total from investment operations	.28	.73	(.26)	.11	.53	.93
Less distributions from:						
Net investment income	(.38)	(.38)	(.41)	(.47)	(.50)	(.56)
Net asset value, end of period	**$ 6.18**	**$ 6.28**	**$ 5.93**	**$ 6.60**	**$ 6.96**	**$ 6.93**
Total Return (%)	4.46[b]**	12.87[b]	(4.44)[b]	1.47[b]	7.91[b]	14.91
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	98	100	101	135	165	178
Ratio of expenses before expense reductions (%)[c]	.78*	.80	.75	.75	.73	.72
Ratio of expenses after expense reductions (%)[c]	.72*	.72	.72	.73	.72	.72
Ratio of net investment income (%)	5.06*	5.38	5.09	5.21	5.69	6.68
Portfolio turnover rate (%)	39**	77	47	52	58	58

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.30**	**$ 5.94**	**$ 6.63**	**$ 6.99**	**$ 6.97**	**$ 6.59**
Income (loss) from investment operations:						
Net investment income[a]	.15	.31	.32	.35	.36	.43
Net realized and unrealized gain (loss)	.11	.41	(.61)	(.26)	.15	.49
Total from investment operations	.26	.72	(.29)	.09	.51	.92
Less distributions from:						
Net investment income	(.36)	(.36)	(.40)	(.45)	(.49)	(.54)
Net asset value, end of period	**$ 6.20**	**$ 6.30**	**$ 5.94**	**$ 6.63**	**$ 6.99**	**$ 6.97**
Total Return (%)[b]	4.19**	12.67	(4.95)	1.22	7.44	14.70
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.2	2	3	.03	.32	.09
Ratio of expenses before expense reductions (%)[c]	1.18*	1.21	1.14	1.13	1.10	.99
Ratio of expenses after expense reductions (%)[c]	.99*	.98	1.02	.97	.97	.99
Ratio of net investment income (%)	4.84*	5.15	4.86	5.09	5.29	6.42
Portfolio turnover rate (%)	39**	77	47	52	58	58

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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.

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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, 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. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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 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, 2016, the Fund had a net tax basis capital loss carryforward of approximately $26,966,000, including $17,232,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains until December 31, 2017, the expiration date; and approximately $9,734,000 of post-enactment long-term losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($1,843,000) and long-term losses ($7,891,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, expiration of capital loss carryforward 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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the Fund's investment in credit default swap contracts sold had a total notional value generally indicative of a range from $1,500,000 to $6,450,000.

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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $498,000 to $840,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from $0 to approximately $217,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2017 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**
Credit Contracts (a)	$ —	$ 58,353	$ 58,353
Foreign Exchange Contracts (b)	17	—	17
	$ 17	**$ 58,353**	**$ 58,370**

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

(a) Unrealized appreciation on bilateral swap contracts

(b) Unrealized appreciation on foreign forward currency exchange contracts

Liability Derivative		Forward Contracts
Foreign Exchange Contracts (c)	$	(9,951)

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

(c) 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, 2017 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 (d)	$	—	$	128,655	$	128,655
Foreign Exchange Contracts (e)		(54,313)		—		(54,313)
	$	**(54,313)**	**$**	**128,655**	**$**	**74,342**

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

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

(e) 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 (f)	$	—	$	21,837	$	21,837
Foreign Exchange Contracts (g)		(5,377)		—		(5,377)
	$	**(5,377)**	**$**	**21,837**	**$**	**16,460**

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

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

(g) 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, 2017, the Fund has transactions subject to enforceable master netting agreements which govern the terms of certain transactions, and reduce the counterparty risk associated with such transactions. Master netting agreements allow a Fund to close out and net total exposure to a counterparty in the event of a deterioration in the credit quality or contractual default with respect to all of the transactions with a counterparty. As defined by the master netting agreement, the Fund may have collateral agreements with certain counterparties to mitigate risk. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivatives assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by a counterparty, including any collateral exposure, is included in the following tables:

Counterparty		Gross Amounts of Assets Presented in the Statement of Assets and Liabilities		Financial Instruments and Derivatives Available for Offset		Collateral Received		Net Amount of Derivative Assets
Citigroup, Inc.	$	17	$	(17)	$	—	$	—
Goldman Sachs & Co.		58,353		—		—		58,353
	$	**58,370**	**$**	**(17)**	**$**	**—**	**$**	**58,353**

Counterparty		Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities		Financial Instruments and Derivatives Available for Offset		Collateral Pledged		Net Amount of Derivative Liabilities
Citigroup, Inc.	$	9,951	$	(17)	$	—	$	9,934

C. Purchases and Sales of Securities

During the six months ended June 30, 2017, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury securities) aggregated $36,900,594 and $42,506,850, respectively. There were no purchases and sales of U.S. Treasury securities during the 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	.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, 2017, 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, 2017 through April 30, 2017, 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 expense) of each class as follows:

Class A	.72%
Class B	.98%

Effective May 1, 2017 through April 30, 2018, 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 expense) of each class as follows:

Class A	.73%
Class B	1.06%

For the six months ended June 30, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 29,140
Class B	1,139
	$ 30,279

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, 2017, the Administration Fee was $50,114, of which $8,121 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at June 30, 2017**
Class A	$ 140	$ 69
Class B	22	12
	$ 162	**$ 81**

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, 2017, the Distribution Service Fee was $1,474, of which $35 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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $7,707, of which $7,112 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, 2017, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $1,996.

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, 2017, 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%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 87%.

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, 2017.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,044.60	$1,041.90
Expenses Paid per $1,000*	$ 3.65	$ 5.01

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,021.22	$1,019.89
Expenses Paid per $1,000*	$ 3.61	$ 4.96

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche High Income VIP	.72%	.99%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche High Income VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 3rd quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one- and three-year periods and has underperformed its benchmark in the five-year period ended December 31, 2015. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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-028385-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series II

Deutsche Small Mid Cap Growth VIP

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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. 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

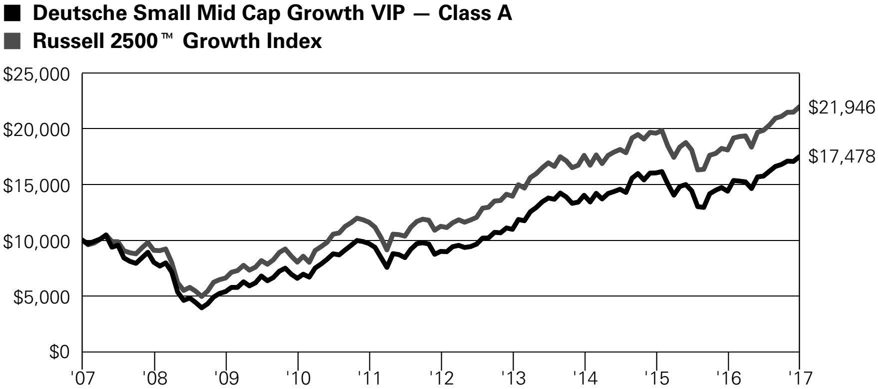
June 30, 2017 (Unaudited)

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, 2017 is 0.75% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment in Deutsche Small Mid Cap Growth VIP



The Russell 2500™ Growth Index is an unmanaged index that measures the performance of the small- to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

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

Comparative Results

Deutsche Small Mid Cap Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,115	$12,161	$12,475	$19,443	$17,478
	Average annual total return	11.15%	21.61%	7.65%	14.22%	5.74%
Russell 2500 Growth Index	Growth of $10,000	$11,063	$12,144	$12,477	$19,538	$21,946
	Average annual total return	10.63%	21.44%	7.65%	14.33%	8.18%

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)	**6/30/17**	**12/31/16**
Common Stocks	96%	97%
Cash Equivalents	4%	3%
Convertible Preferred Stock	0%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
Information Technology	22%	20%
Health Care	21%	18%
Industrials	18%	20%
Consumer Discretionary	17%	20%
Materials	8%	7%
Financials	5%	7%
Consumer Staples	4%	4%
Energy	3%	3%
Real Estate	2%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's portfolio holdings are also posted on deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Joseph Axtell, CFA, Managing Director
Peter Barsa, Director
Michael A. Sesser, CFA, Vice President
Portfolio Managers

	Shares	Value ($)
Common Stocks 96.2%		
Consumer Discretionary 16.8%		
Auto Components 2.3%		
Gentherm, Inc.*	38,010	1,474,788
Tenneco, Inc.	24,482	1,415,794
		2,890,582
Diversified Consumer Services 1.7%		
Bright Horizons Family Solutions, Inc.*	14,800	1,142,708
ServiceMaster Global Holdings, Inc.*	26,100	1,022,859
		2,165,567
Hotels, Restaurants & Leisure 1.9%		
Hilton Grand Vacations, Inc.*	26,500	955,590
Jack in the Box, Inc.	14,752	1,453,072
		2,408,662
Household Durables 3.0%		
Helen of Troy Ltd.*	11,200	1,053,920
iRobot Corp.*	21,355	1,796,810
Newell Brands, Inc.	16,958	909,288
		3,760,018
Leisure Products 1.1%		
Polaris Industries, Inc. (a)	14,619	**1,348,310**
Media 1.2%		
Cinemark Holdings, Inc.	39,218	**1,523,619**
Specialty Retail 3.9%		
Burlington Stores, Inc.*	18,900	1,738,611
The Children's Place, Inc.	15,941	1,627,576
Ulta Salon, Cosmetics & Fragrance, Inc.*	5,069	1,456,527
		4,822,714
Textiles, Apparel & Luxury Goods 1.7%		
Carter's, Inc.	12,586	1,119,525
Hanesbrands, Inc. (a)	42,994	995,741
		2,115,266
Consumer Staples 3.6%		
Food & Staples Retailing 1.0%		
Casey's General Stores, Inc.	11,282	**1,208,415**
Food Products 1.5%		
Hain Celestial Group, Inc.*	32,043	1,243,909
SunOpta, Inc.*	65,026	663,265
		1,907,174
Household Products 1.1%		
Spectrum Brands Holdings, Inc. (a)	10,800	**1,350,432**
Energy 3.0%		
Energy Equipment & Services 2.1%		
Core Laboratories NV	9,143	925,912
Dril-Quip, Inc.*	6,084	296,899
Patterson-UTI Energy, Inc.	37,400	755,106
Solaris Oilfield Infrastructure, Inc. "A"* (a)	54,920	633,227
		2,611,144
Oil, Gas & Consumable Fuels 0.9%		
Diamondback Energy, Inc.*	10,820	960,924
Gulfport Energy Corp.*	13,830	203,993
		1,164,917

	Shares	Value ($)
Financials 4.7%		
Banks 3.1%		
FCB Financial Holdings, Inc. "A"*	22,121	1,056,278
Pinnacle Financial Partners, Inc.	14,761	926,991
South State Corp.	10,513	900,964
SVB Financial Group*	5,741	1,009,210
		3,893,443
Capital Markets 1.6%		
Lazard Ltd. "A"	23,866	1,105,712
Moelis & Co. "A"	22,802	885,858
		1,991,570
Health Care 19.5%		
Biotechnology 7.1%		
Acceleron Pharma, Inc.*	25,000	759,750
Alkermes PLC*	21,168	1,227,109
Bluebird Bio, Inc.*	8,876	932,424
Clovis Oncology, Inc.*	6,700	627,321
Heron Therapeutics, Inc.* (a)	65,100	901,635
Ligand Pharmaceuticals, Inc.* (a)	14,109	1,712,832
Neurocrine Biosciences, Inc.*	17,815	819,490
Retrophin, Inc.*	87,925	1,704,866
TESARO, Inc.*	1,900	265,734
		8,951,161
Health Care Equipment & Supplies 0.7%		
Cardiovascular Systems, Inc.*	29,003	**934,767**
Health Care Providers & Services 7.9%		
BioScrip, Inc.*	590,100	1,602,121
Centene Corp.*	20,843	1,664,939
Kindred Healthcare, Inc.	80,458	937,336
Molina Healthcare, Inc.*	30,466	2,107,638
Providence Service Corp.*	33,322	1,686,426
RadNet, Inc.*	107,600	833,900
Tivity Health, Inc.*	26,800	1,067,980
		9,900,340
Life Sciences Tools & Services 0.9%		
PAREXEL International Corp.*	12,653	**1,099,672**
Pharmaceuticals 2.9%		
Avadel Pharmaceuticals PLC (ADR)*	140,644	1,551,304
Medicines Co.* (a)	25,600	973,056
Pacira Pharmaceuticals, Inc.*	22,636	1,079,737
		3,604,097
Industrials 17.5%		
Aerospace & Defense 1.1%		
HEICO Corp.	19,652	**1,411,800**
Airlines 1.0%		
JetBlue Airways Corp.*	55,194	**1,260,079**
Building Products 4.1%		
A.O. Smith Corp.	28,752	1,619,600
Allegion PLC	14,600	1,184,352
Fortune Brands Home & Security, Inc.	21,743	1,418,513
Gibraltar Industries, Inc.*	26,800	955,420
		5,177,885
Commercial Services & Supplies 1.0%		
Advanced Disposal Services, Inc.*	56,424	**1,282,518**

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

	Shares	Value ($)
Construction & Engineering 1.0%		
Primoris Services Corp.	48,342	**1,205,649**
Electrical Equipment 1.7%		
Atkore International Group, Inc.*	42,738	963,742
AZZ, Inc.	19,600	1,093,680
		2,057,422
Machinery 5.6%		
IDEX Corp.	12,700	1,435,227
John Bean Technologies Corp.	20,100	1,969,800
WABCO Holdings, Inc.*	15,722	2,004,712
Welbilt, Inc.*	87,100	1,641,835
		7,051,574
Marine 0.6%		
Kirby Corp.*	10,100	**675,185**
Trading Companies & Distributors 1.4%		
Rush Enterprises, Inc. "A"*	48,165	**1,790,775**
Information Technology 21.4%		
Electronic Equipment, Instruments & Components 5.2%		
Belden, Inc.	16,800	1,267,224
Cognex Corp.	31,716	2,692,688
IPG Photonics Corp.*	13,356	1,937,956
Knowles Corp.*	38,500	651,420
		6,549,288
Internet Software & Services 3.1%		
CoStar Group, Inc.*	7,227	1,905,037
Five9, Inc.*	30,600	658,512
WebMD Health Corp.*	23,433	1,374,346
		3,937,895
IT Services 5.2%		
Broadridge Financial Solutions, Inc.	23,570	1,780,949
Cardtronics PLC "A"*	18,277	600,582
Euronet Worldwide, Inc.*	13,000	1,135,810
MAXIMUS, Inc.	13,234	828,845
WEX, Inc.*	9,098	948,649
WNS Holdings Ltd. (ADR)*	34,828	1,196,690
		6,491,525
Semiconductors & Semiconductor Equipment 3.4%		
Advanced Energy Industries, Inc.*	28,893	1,869,088
Advanced Micro Devices, Inc.*	16,100	200,928
Ambarella, Inc.* (a)	12,700	616,585
Cypress Semiconductor Corp.	73,172	998,798
Mellanox Technologies Ltd.* (a)	13,000	562,900
		4,248,299
Software 3.9%		
Aspen Technology, Inc.*	27,883	1,540,814
Proofpoint, Inc.*	11,700	1,015,911
Tyler Technologies, Inc.*	12,931	2,271,589
		4,828,314

	Shares	Value ($)
Technology Hardware, Storage & Peripherals 0.6%		
Super Micro Computer, Inc.*	30,100	**741,965**
Materials 7.3%		
Chemicals 3.4%		
Huntsman Corp.	52,512	1,356,910
Minerals Technologies, Inc.	19,378	1,418,470
Trinseo SA	22,115	1,519,300
		4,294,680
Construction Materials 1.2%		
Eagle Materials, Inc.	15,756	**1,456,170**
Containers & Packaging 0.9%		
Berry Global Group, Inc.*	20,095	**1,145,616**
Metals & Mining 1.8%		
Commercial Metals Co.	60,632	1,178,080
Pan American Silver Corp.	60,244	1,013,304
		2,191,384
Real Estate 2.4%		
Equity Real Estate Investment Trusts (REITs)		
National Storage Affiliates Trust	53,170	1,228,759
SBA Communications Corp.*	6,155	830,309
Urban Edge Properties	40,000	949,200
		3,008,268
Total Common Stocks (Cost $85,641,209)		**120,458,161**

Convertible Preferred Stock 0.3%

	Shares	Value ($)
Health Care		
Providence Service Corp., 5.5% (Cost $283,300)	2,833	**359,524**

Securities Lending Collateral 7.4%

	Shares	Value ($)
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (b) (c) (Cost $9,294,586)	9,294,586	**9,294,586**

Cash Equivalents 3.8%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 1.03% (b) (Cost $4,749,140)	4,749,140	**4,749,140**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $99,968,235)†	107.7	**134,861,411**
Other Assets and Liabilities, Net	(7.7)	**(9,585,149)**
Net Assets	100.0	**125,276,262**

* Non-income producing security.

† The cost for federal income tax purposes was $100,581,567. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $34,279,844. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $37,363,355 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,083,511.

(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, 2017 amounted to $9,066,783, which is 7.2% of net assets.

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

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

ADR: American Depositary Receipt

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, 2017 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)	$120,458,161	$ —	$ —	$120,458,161
Convertible Preferred Stock	—	—	359,524	359,524
Short-Term Investments (d)	14,043,726	—	—	14,043,726
Total	**$134,501,887**	**$ —**	**$ 359,524**	**$134,861,411**

There have been no transfers between fair value measurement levels during the period ended June 30, 2017.

(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, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $85,924,509) — including $9,066,783 of securities loaned	$	120,817,685
Investment in Deutsche Government & Agency Securities Portfolio (cost $9,294,586)*		9,294,586
Investment in Deutsche Central Cash Management Government Fund (cost $4,749,140)		4,749,140
Total investments in securities, at value (cost $99,968,235)		134,861,411
Cash		78,008
Receivable for investments sold		277,055
Dividends receivable		51,652
Interest receivable		8,662
Other assets		779
Total assets		135,277,567
Liabilities		
Payable upon return of securities loaned		9,294,586
Payable for investments purchased		373,592
Payable for Fund shares redeemed		206,839
Accrued management fee		56,721
Accrued Trustees' fees		303
Other accrued expenses and payables		69,264
Total liabilities		10,001,305
Net assets, at value	**$**	**125,276,262**
Net Assets Consist of		
Distribution in excess of net investment income		(7,913)
Net unrealized appreciation (depreciation) on investments		34,893,176
Accumulated net realized gain (loss)		8,079,752
Paid-in capital		82,311,247
Net assets, at value	**$**	**125,276,262**
Class A		
Net Asset Value, offering and redemption price per share ($125,276,262 ÷ 6,273,734 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**19.97**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $1,768)	$	417,179
Income distributions — Deutsche Central Cash Management Government Fund		13,173
Securities lending income, net of borrower rebates		30,090
Total income		460,442
Expenses:		
Management fee		336,924
Administration fee		61,259
Services to shareholders		896
Custodian fee		1,479
Professional fees		37,494
Reports to shareholders		14,067
Trustees' fees and expenses		4,009
Other		3,804
Total expenses		459,932
Net investment income (loss)		**510**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		8,764,955
Change in net unrealized appreciation (depreciation) on investments		4,237,960
Net gain (loss)		**13,002,915**
Net increase (decrease) in net assets resulting from operations	**$**	**13,003,425**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income (loss)	$ 510	$ 124,275
Net realized gain (loss)	8,764,955	6,541,357
Change in net unrealized appreciation (depreciation)	4,237,960	1,718,283
Net increase (decrease) in net assets resulting from operations	13,003,425	8,383,915
Distributions to shareholders from:		
Net investment income		
Class A	(124,128)	—
Net realized gains		
Class A	(6,452,819)	(20,264,895)
Total distributions	(6,576,947)	(20,264,895)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,344,191	2,382,262
Reinvestment of distributions	6,576,947	20,264,895
Payments for shares redeemed	(8,448,447)	(27,583,809)
Net increase (decrease) in net assets from Class A share transactions	472,691	(4,936,652)
Increase (decrease) in net assets	6,899,169	(16,817,632)
Net assets at beginning of period	118,377,093	135,194,725
Net assets at end of period (including distribution in excess of and undistributed net investment income $7,913 and $115,705, respectively)	**$ 125,276,262**	**$ 118,377,093**

Other Information		
Class A		
Shares outstanding at beginning of period	6,244,931	6,467,679
Shares sold	119,626	129,160
Shares issued to shareholders in reinvestment of distributions	336,589	1,137,838
Shares redeemed	(427,412)	(1,489,746)
Net increase (decrease) in Class A shares	28,803	(222,748)
Shares outstanding at end of period	**6,273,734**	**6,244,931**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	Years Ended December 31, 2016	2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$18.96**	**$20.90**	**$22.83**	**$21.59**	**$15.14**	**$13.24**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.00***	.02	(.04)	(.02)	(.04)	.02
Net realized and unrealized gain (loss)	2.09	1.64	(.00)	1.26	6.51	1.88
Total from investment operations	2.09	1.66	(.04)	1.24	6.47	1.90
Less distributions from:						
Net investment income	(.02)	—	—	—	(.02)	—
Net realized gains	(1.06)	(3.60)	(1.89)	—	—	—
Total distributions	(1.08)	(3.60)	(1.89)	—	(.02)	—
Net asset value, end of period	**$19.97**	**$18.96**	**$20.90**	**$22.83**	**$21.59**	**$15.14**
Total Return (%)	11.15**	9.08	(.90)	5.74	42.78	14.35
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	125	118	135	172	187	145
Ratio of expenses (%)[c]	.75*	.75	.72	.73	.72	.74
Ratio of net investment income (loss) (%)	.00[b]*	.11	(.19)	(.11)	(.22)	.11
Portfolio turnover rate (%)	21**	28	42	44	56	57

a Based on average shares outstanding during the period.

b Amount is less than .005%.

c Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

*** Amount is less than $.005.

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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, 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. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016 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, 2017, purchases and sales of investment transactions (excluding short-term investments) aggregated $24,750,943 and $32,556,576, 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, 2017, 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, 2017 through September 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 0.88%.

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, 2017, the Administration Fee was $61,259, of which $10,313 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, 2017, the amounts charged to the Fund by DSC aggregated $181, of which $98 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,255, of which $4,918 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $2,265.

D. Ownership of the Fund

At June 30, 2017, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 72% and 23%.

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, 2017.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,111.50
Expenses Paid per $1,000*	$ 3.93
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,021.08
Expenses Paid per $1,000*	$ 3.76

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Small Mid Cap Growth VIP	.75%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Small Mid Cap Growth VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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, 2015.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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-028388-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series II

Deutsche Small Mid Cap Value VIP

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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

Performance Summary

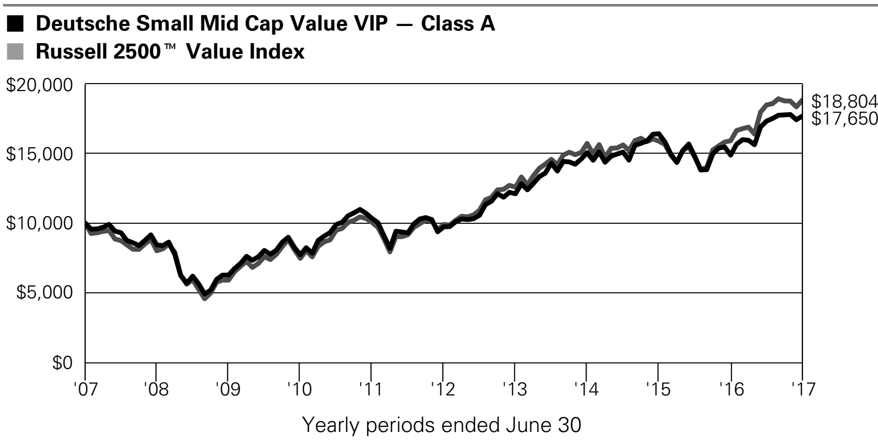
June 30, 2017 (Unaudited)

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, 2017 are 0.83% and 1.19% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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	$10,212	$11,881	$11,741	$18,143	$17,650
	Average annual total return	2.12%	18.81%	5.50%	12.65%	5.85%
Russell 2500 Value Index	Growth of $10,000	$10,195	$11,836	$11,979	$18,991	$18,804
	Average annual total return	1.95%	18.36%	6.21%	13.69%	6.52%

Deutsche Small Mid Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,193	$11,837	$11,622	$17,813	$17,034
	Average annual total return	1.93%	18.37%	5.14%	12.24%	5.47%
Russell 2500 Value Index	Growth of $10,000	$10,195	$11,836	$11,979	$18,991	$18,804
	Average annual total return	1.95%	18.36%	6.21%	13.69%	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)	**6/30/17**	**12/31/16**
Common Stocks	96%	95%
Cash Equivalents	4%	5%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/17**	**12/31/16**
Financials	20%	24%
Industrials	20%	15%
Information Technology	14%	15%
Real Estate	12%	7%
Consumer Discretionary	10%	14%
Materials	6%	3%
Utilities	6%	5%
Energy	5%	7%
Consumer Staples	4%	6%
Health Care	3%	4%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

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

	Shares	Value ($)
Common Stocks 96.0%		
Consumer Discretionary 9.5%		
Auto Components 4.2%		
Cooper Tire & Rubber Co.	29,100	1,050,510
Standard Motor Products, Inc.	50,604	2,642,541
Visteon Corp.*	31,037	3,167,636
		6,860,687
Automobiles 0.1%		
Winnebago Industries, Inc.	4,800	**168,000**
Diversified Consumer Services 0.1%		
Regis Corp.*	15,700	**161,239**
Hotels, Restaurants & Leisure 0.5%		
Caesars Entertainment Corp.* (a)	59,200	710,400
Denny's Corp.*	14,000	164,780
		875,180
Leisure Products 0.2%		
Mattel, Inc.	15,600	**335,868**
Media 2.9%		
AMC Entertainment Holdings, Inc. "A"	44,500	1,012,375
Scripps Networks Interactive, Inc. "A"	31,200	2,131,272
TEGNA, Inc.	108,567	1,564,451
		4,708,098
Specialty Retail 1.5%		
Hibbett Sports, Inc.* (a)	56,884	1,180,343
Staples, Inc.	128,700	1,296,009
		2,476,352
Consumer Staples 4.1%		
Food Products 1.8%		
Lamb Weston Holdings, Inc.	39,076	1,720,907
Pinnacle Foods, Inc.	21,000	1,247,400
		2,968,307
Household Products 2.3%		
Central Garden & Pet Co.*	61,800	1,964,622
Energizer Holdings, Inc.	37,318	1,792,010
		3,756,632
Energy 5.1%		
Energy Equipment & Services 1.4%		
Oil States International, Inc.*	40,700	1,105,005
U.S. Silica Holdings, Inc.	31,839	1,129,966
		2,234,971
Oil, Gas & Consumable Fuels 3.7%		
Cimarex Energy Co.	25,176	2,366,796
Golar LNG Ltd.	7,400	164,650
Matador Resources Co.*	69,315	1,481,261
Noble Energy, Inc.	71,700	2,029,110
		6,041,817
Financials 18.8%		
Banks 8.5%		
Capital Bank Financial Corp. "A"	49,349	1,880,197
Great Western Bancorp., Inc.	62,102	2,534,383
Hancock Holding Co.	35,416	1,735,384
KeyCorp	204,654	3,835,216
OFG Bancorp. (a)	172,382	1,723,820
Sterling Bancorp.	95,454	2,219,305
		13,928,305
Capital Markets 2.3%		
Lazard Ltd. "A"	78,446	**3,634,403**
Consumer Finance 2.0%		
Synchrony Financial	109,865	**3,276,174**
Insurance 4.3%		
CNO Financial Group, Inc.	155,178	3,240,117
Reinsurance Group of America, Inc.	29,749	3,819,474
		7,059,591
Thrifts & Mortgage Finance 1.7%		
Walker & Dunlop, Inc.*	57,331	**2,799,473**
Health Care 3.2%		
Health Care Providers & Services 2.5%		
Aceto Corp.	92,204	1,424,552
HealthSouth Corp.	54,935	2,658,854
		4,083,406
Life Sciences Tools & Services 0.7%		
PerkinElmer, Inc.	16,843	**1,147,682**
Industrials 18.6%		
Aerospace & Defense 0.5%		
Triumph Group, Inc.	28,400	**897,440**
Commercial Services & Supplies 5.4%		
Interface, Inc.	74,475	1,463,434
Pitney Bowes, Inc.	156,263	2,359,571
Steelcase, Inc. "A"	120,420	1,685,880
The Brink's Co.	50,133	3,358,911
		8,867,796
Construction & Engineering 1.2%		
Aegion Corp.*	86,800	**1,899,184**
Electrical Equipment 0.8%		
EnerSys	18,800	**1,362,060**
Industrial Conglomerates 0.8%		
Carlisle Companies, Inc.	13,310	**1,269,774**
Machinery 7.5%		
Douglas Dynamics, Inc.	42,200	1,388,380
Federal Signal Corp.	61,200	1,062,432
Global Brass & Copper Holdings, Inc.	49,100	1,500,005
Hillenbrand, Inc.	79,967	2,886,809
Snap-on, Inc.	13,885	2,193,830
Stanley Black & Decker, Inc.	23,659	3,329,531
		12,360,987
Professional Services 0.4%		
FTI Consulting, Inc.*	16,705	**584,007**
Trading Companies & Distributors 2.0%		
AerCap Holdings NV*	69,933	**3,246,989**
Information Technology 13.3%		
Communications Equipment 2.3%		
Harris Corp.	34,135	**3,723,446**
Electronic Equipment, Instruments & Components 6.3%		
Dolby Laboratories, Inc. "A"	40,858	2,000,408
Insight Enterprises, Inc.*	49,400	1,975,506
Keysight Technologies, Inc.*	78,652	3,061,922
Rogers Corp.*	22,735	2,469,476
Sanmina Corp.*	22,300	849,630
		10,356,942

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

	Shares	Value ($)
Internet Software & Services 0.4%		
Cars.com, Inc.* (a)	23,389	**622,849**
IT Services 1.8%		
Convergys Corp.	77,760	1,849,133
NeuStar, Inc. "A"*	33,407	1,114,123
		2,963,256
Software 1.3%		
Verint Systems, Inc.*	52,794	**2,148,716**
Technology Hardware, Storage & Peripherals 1.2%		
NetApp, Inc.	48,401	**1,938,460**
Materials 6.0%		
Chemicals 4.8%		
Celanese Corp. "A"	32,629	3,097,797
CF Industries Holdings, Inc.	63,600	1,778,256
GCP Applied Technologies, Inc.*	35,438	1,080,859
Minerals Technologies, Inc.	25,800	1,888,560
		7,845,472
Containers & Packaging 1.2%		
Owens-Illinois, Inc.*	83,800	**2,004,496**
Real Estate 11.6%		
Equity Real Estate Investment Trusts (REITs)		
Agree Realty Corp.	61,102	2,802,749
Brixmor Property Group, Inc.	87,400	1,562,712
Easterly Government Properties, Inc.	70,091	1,468,407
Gaming and Leisure Properties, Inc.	103,621	3,903,403
Highwoods Properties, Inc.	28,800	1,460,448
Pebblebrook Hotel Trust (a)	90,739	2,925,425
Physicians Realty Trust	138,108	2,781,495
STAG Industrial, Inc.	76,900	2,122,440
		19,027,079
Utilities 5.8%		
Electric Utilities 2.1%		
IDACORP, Inc.	39,783	**3,395,479**
Gas Utilities 1.4%		
ONE Gas, Inc.	33,200	**2,317,692**
Multi-Utilities 2.3%		
DTE Energy Co.	34,800	**3,681,492**
Total Common Stocks (Cost $134,994,335)		**157,029,801**

Securities Lending Collateral 2.7%

	Shares	Value ($)
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (b) (c) (Cost $4,399,800)	4,399,800	**4,399,800**

Cash Equivalents 3.6%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 1.03% (b) (Cost $5,985,190)	5,985,190	**5,985,190**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $145,379,325)[†]	102.3	**167,414,791**
Other Assets and Liabilities, Net	(2.3)	**(3,833,686)**
Net Assets	100.0	**163,581,105**

* Non-income producing security.

† The cost for federal income tax purposes was $145,566,584. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $21,848,207. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $28,414,967 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,566,760.

(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, 2017 amounted to $4,245,124, which is 2.6% 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.

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, 2017 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)	$157,029,801	$ —	$ —	$157,029,801
Short-Term Investments (d)	10,384,990	—	—	10,384,990
Total	**$167,414,791**	**$ —**	**$ —**	**$167,414,791**

There have been no transfers between fair value measurement levels during the period ended June 30, 2017.

(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, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $134,994,335) — including $4,245,124 of securities loaned	$	157,029,801
Investment in Deutsche Government & Agency Securities Portfolio (cost $4,399,800)*		4,399,800
Investment in Deutsche Central Cash Management Government Fund (cost $5,985,190)		5,985,190
Total investments in securities, at value (cost $145,379,325)		167,414,791
Cash		10,000
Receivable for investments sold		1,667,086
Receivable for Fund shares sold		26,620
Dividends receivable		227,633
Interest receivable		4,766
Other assets		894
Total assets		169,351,790
Liabilities		
Payable upon return of securities loaned		4,399,800
Payable for investments purchased		996,677
Payable for Fund shares redeemed		205,363
Accrued management fee		87,635
Accrued Trustees' fees		868
Other accrued expenses and payables		80,342
Total liabilities		5,770,685
Net assets, at value	**$**	**163,581,105**
Net Assets Consist of		
Undistributed net investment income		1,264,341
Net unrealized appreciation (depreciation) on investments		22,035,466
Accumulated net realized gain (loss)		7,697,157
Paid-in capital		132,584,141
Net assets, at value	**$**	**163,581,105**
Class A		
Net Asset Value, offering and redemption price per share ($146,694,044 ÷ 8,880,906 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**16.52**
Class B		
Net Asset Value, offering and redemption price per share ($16,887,061 ÷ 1,021,905 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**16.53**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2017 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $2,393)	$	1,644,517
Income distributions — Deutsche Central Cash Management Government Fund		22,171
Securities lending income, net of borrower rebates		9,581
Total income		1,676,269
Expenses:		
Management fee		540,453
Administration fee		83,147
Services to shareholders		1,165
Record keeping fees (Class B)		8,792
Distribution service fee (Class B)		19,974
Custodian fee		1,878
Professional fees		34,595
Reports to shareholders		18,079
Trustees' fees and expenses		5,886
Other		3,994
Total expenses		717,963
Net investment income (loss)		**958,306**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		8,038,990
Change in net unrealized appreciation (depreciation) on investments		(5,503,227)
Net gain (loss)		**2,535,763**
Net increase (decrease) in net assets resulting from operations	**$**	**3,494,069**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income (loss)	$ 958,306	$ 1,525,205
Net realized gain (loss)	8,038,990	3,137,095
Change in net unrealized appreciation (depreciation)	(5,503,227)	19,608,211
Net increase (decrease) in net assets resulting from operations	3,494,069	24,270,511
Distributions to shareholders from:		
Net investment income:		
Class A	(1,100,828)	(888,084)
Class B	(59,126)	(31,217)
Net realized gains:		
Class A	(3,269,636)	(15,665,658)
Class B	(353,505)	(1,422,898)
Total distributions	(4,783,095)	(18,007,857)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,572,749	8,157,267
Reinvestment of distributions	4,370,464	16,553,742
Payments for shares redeemed	(13,410,180)	(37,741,593)
Net increase (decrease) in net assets from Class A share transactions	(5,466,967)	(13,030,584)
Class B		
Proceeds from shares sold	2,580,488	2,712,137
Reinvestment of distributions	412,631	1,454,115
Payments for shares redeemed	(1,349,730)	(3,082,291)
Net increase (decrease) in net assets from Class B share transactions	1,643,389	1,083,961
Increase (decrease) in net assets	(5,112,604)	(5,683,969)
Net assets at beginning of period	168,693,709	174,377,678
Net assets at end of period (including undistributed net investment income of $1,264,341 and $1,465,989, respectively)	**$ 163,581,105**	**$ 168,693,709**

Other Information		
Class A		
Shares outstanding at beginning of period	9,208,579	10,068,570
Shares sold	212,972	525,679
Shares issued to shareholders in reinvestment of distributions	259,221	1,110,244
Shares redeemed	(799,866)	(2,495,914)
Net increase (decrease) in Class A shares	(327,673)	(859,991)
Shares outstanding at end of period	**8,880,906**	**9,208,579**
Class B		
Shares outstanding at beginning of period	923,852	852,173
Shares sold	154,001	176,025
Shares issued to shareholders in reinvestment of distributions	24,445	97,461
Shares redeemed	(80,393)	(201,807)
Net increase (decrease) in Class B shares	98,053	71,679
Shares outstanding at end of period	**1,021,905**	**923,852**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$16.65**	**$15.97**	**$17.79**	**$17.08**	**$12.78**	**$11.36**
Income (loss) from investment operations:						
Net investment income[a]	.10	.15	.09	.05	.12	.14
Net realized and unrealized gain (loss)	.26	2.34	(.31)	.88	4.35	1.42
Total from investment operations	.36	2.49	(.22)	.93	4.47	1.56
Less distributions from:						
Net investment income	(.12)	(.10)	(.05)	(.14)	(.17)	(.14)
Net realized gains	(.37)	(1.71)	(1.55)	(.08)	—	—
Total distributions	(.49)	(1.81)	(1.60)	(.22)	(.17)	(.14)
Net asset value, end of period	**$16.52**	**$16.65**	**$15.97**	**$17.79**	**$17.08**	**$12.78**
Total Return (%)	2.12**	16.89[b]	(1.91)	5.53	35.24	13.77
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	147	153	161	205	240	219
Ratio of expenses before expense reductions (%)[c]	.83*	.83	.80	.82	.82	.82
Ratio of expenses after expense reductions (%)[c]	.83*	.82	.80	.82	.82	.82
Ratio of net investment income (%)	1.18*	.99	.51	.32	.81	1.18
Portfolio turnover rate (%)	26**	53	25	34	115	11

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$16.63**	**$15.95**	**$17.77**	**$17.07**	**$12.78**	**$11.36**
Income (loss) from investment operations:						
Net investment income[a]	.07	.09	.02	(.01)	.07	.10
Net realized and unrealized gain (loss)	.26	2.34	(.29)	.87	4.34	1.42
Total from investment operations	.33	2.43	(.27)	.86	4.41	1.52
Less distributions from:						
Net investment income	(.06)	(.04)	—	(.08)	(.12)	(.10)
Net realized gains	(.37)	(1.71)	(1.55)	(.08)	—	—
Total distributions	(.43)	(1.75)	(1.55)	(.16)	(.12)	(.10)
Net asset value, end of period	**$16.53**	**$16.63**	**$15.95**	**$17.77**	**$17.07**	**$12.78**
Total Return (%)	1.93**	16.47[b]	(2.21)	5.09	34.70	13.38
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	17	15	14	17	20	17
Ratio of expenses before expense reductions (%)[c]	1.19*	1.19	1.16	1.17	1.17	1.16
Ratio of expenses after expense reductions (%)[c]	1.19*	1.18	1.16	1.17	1.17	1.16
Ratio of net investment income (loss) (%)	.84*	.57	.14	(.04)	.45	.81
Portfolio turnover rate (%)	26**	53	25	34	115	11

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, 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. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016 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 at its fiscal year end 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, 2017, purchases and sales of investment transactions (excluding short-term investments) aggregated $41,803,675 and $47,557,183, respectively.

C. Related Parties

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

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, 2017, 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, 2017 through September 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 each class as follows:

Class A	.84%
Class B	1.20%

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2017, the Administration Fee was $83,147, of which $13,482 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, 2017, the amounts charged to the Fund by DSC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at June 30, 2017
Class A	$ 302	$ 142
Class B	227	112
	$ 529	**$ 254**

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, 2017, the Distribution Service Fee aggregated $19,974, of which $3,434 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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,970, of which $5,506 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and 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, 2017, 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 21%. Three participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 25%, 21% and 19%.

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, 2017.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,021.20	$1,019.30
Expenses Paid per $1,000*	$ 4.16	$ 5.96
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/17	$1,000.00	$1,000.00
Ending Account Value 6/30/17	$1,020.68	$1,018.89
Expenses Paid per $1,000*	$ 4.16	$ 5.96

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Small Mid Cap Value VIP	.83%	1.19%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Small Mid Cap Value VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 2nd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one- and three-year periods and has underperformed its benchmark in the five-year period ended December 31, 2015. 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 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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-028381-6 8/17)

Deutsche
Asset Management

June 30, 2017

Semiannual Report

Deutsche Variable Series II

Deutsche Unconstrained Income VIP

(Effective on or about October 2, 2017, Deutsche Unconstrained Income VIP will be renamed Deutsche Multisector Income VIP.)

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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.

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

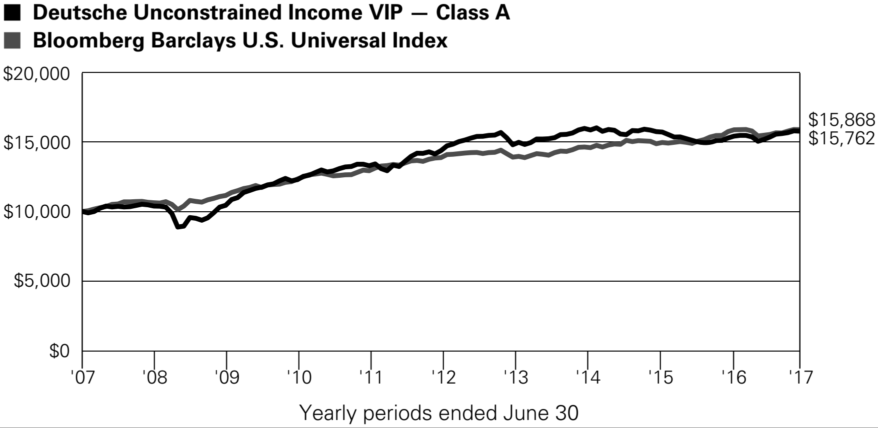
June 30, 2017 (Unaudited)

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, 2017 is 1.34% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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



The unmanaged Bloomberg 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 Unconstrained Income VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,396	$10,321	$9,877	$10,973	$15,762
	Average annual total return	3.96%	3.21%	–0.41%	1.87%	4.66%
Bloomberg Barclays U.S. Universal Index	Growth of $10,000	$10,263	$10,091	$10,851	$11,442	$15,868
	Average annual total return	2.63%	0.91%	2.76%	2.73%	4.73%

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)	**6/30/17**	**12/31/16**
Government & Agency Obligations	42%	41%
Corporate Bonds	25%	20%
Exchange-Traded Funds	8%	11%
Collateralized Mortgage Obligations	5%	10%
Commercial Mortgage-Backed Securities	5%	5%
Mortgage-Backed Security Pass-Throughs	4%	—
Loan Participations and Assignments	4%	5%
Cash Equivalents	3%	5%
Short-Term U.S. Treasury Obligations	2%	2%
Asset-Backed	1%	1%
Convertible Bond	1%	0%
Common Stocks	0%	0%
Warrant	0%	0%
Put Options Purchased	—	0%
	100%	100%

Quality (Excludes Cash Equivalents, Securities Lending Collateral and Exchange-Traded Funds)	**6/30/17**	**12/31/16**
AAA	40%	41%
AA	0%	1%
A	5%	9%
BBB	28%	31%
BB	16%	9%
B	6%	3%
CCC or Below	5%	6%
	100%	100%

Interest Rate Sensitivity	**6/30/17**	**12/31/16**
Effective Maturity	6.6 years	7.2 years
Effective Duration	4.1 years	4.6 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

Prior to August 1, 2017, the portfolio management team is as follows:

Gary Russell, CFA, Managing Director
John D. Ryan, Managing Director
Darwei Kung, Managing Director
Portfolio Managers

Effective August 1, 2017, the portfolio management team is as follows:

John D. Ryan, Managing Director
Kevin Bliss, Director
Portfolio Managers

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 23.9%		
Consumer Discretionary 1.9%		
Adient Global Holdings Ltd., 144A, 4.875%, 8/15/2026	200,000	200,500
American Axle & Manufacturing, Inc., 144A, 6.25%, 4/1/2025 (b)	60,000	58,500
Charter Communications Operating LLC:		
3.579%, 7/23/2020	20,000	20,668
4.908%, 7/23/2025	10,000	10,803
CVS Health Corp., 5.125%, 7/20/2045	30,000	34,392
General Motors Co., 6.6%, 4/1/2036	15,000	17,379
Nordstrom, Inc.:		
4.0%, 3/15/2027	20,000	19,571
5.0%, 1/15/2044	35,000	33,347
Viacom, Inc.:		
5.875%, 2/28/2057	20,000	20,800
6.25%, 2/28/2057	20,000	20,800
Walgreens Boots Alliance, Inc., 4.8%, 11/18/2044	20,000	21,283
		458,043
Consumer Staples 0.9%		
Kraft Heinz Foods Co., 4.375%, 6/1/2046	200,000	195,867
Molson Coors Brewing Co., 4.2%, 7/15/2046	15,000	14,793
		210,660
Energy 9.3%		
Canadian Natural Resources Ltd.:		
3.85%, 6/1/2027	25,000	24,797
4.95%, 6/1/2047	20,000	20,298
Continental Resources, Inc., 5.0%, 9/15/2022	100,000	98,125
Ecopetrol SA, 5.875%, 9/18/2023	100,000	109,350
Enbridge, Inc., 5.5%, 12/1/2046	20,000	22,370
Energy Transfer LP, 5.95%, 10/1/2043	10,000	10,594
EnLink Midstream Partners LP, 5.45%, 6/1/2047	35,000	34,898
Halliburton Co., 4.85%, 11/15/2035	10,000	10,691
Hess Corp.:		
5.6%, 2/15/2041	50,000	49,153
5.8%, 4/1/2047	25,000	25,208
Hilcorp Energy I LP, 144A, 5.75%, 10/1/2025	100,000	94,250
KazMunayGas National Co. JSC:		
144A, 3.875%, 4/19/2022	200,000	197,920
144A, 4.75%, 4/19/2027	200,000	196,020
Kinder Morgan Energy Partners LP, 4.7%, 11/1/2042	40,000	37,763
Lukoil International Finance BV, 144A, 6.656%, 6/7/2022	150,000	168,345
Marathon Oil Corp., 5.2%, 6/1/2045	35,000	33,557
MEG Energy Corp., 144A, 6.5%, 1/15/2025 (b)	100,000	91,000
Noble Holding International Ltd.:		
5.75%, 3/16/2018	10,000	10,061
7.75%, 1/15/2024 (b)	100,000	79,125
Oasis Petroleum, Inc., 6.875%, 3/15/2022 (b)	50,000	48,500
Pertamina Persero PT, 144A, 5.25%, 5/23/2021	200,000	216,542
Petroleos Mexicanos, REG S, 3.75%, 2/21/2024 EUR	200,000	236,469
Plains All American Pipeline LP:		
2.85%, 1/31/2023	25,000	24,253
4.3%, 1/31/2043	35,000	29,947
4.5%, 12/15/2026	50,000	50,568
Regency Energy Partners LP, 4.5%, 11/1/2023	20,000	20,752
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	20,000	19,498
Transcanada Trust, 5.3%, 3/15/2077	90,000	92,520
Weatherford International Ltd., 144A, 9.875%, 2/15/2024	100,000	104,500
WPX Energy, Inc., 6.0%, 1/15/2022	100,000	99,000
		2,256,074
Financials 3.7%		
Akbank TAS, 144A, 5.0%, 10/24/2022	400,000	398,752
Ares Capital Corp., 3.625%, 1/19/2022	20,000	20,231
Blackstone Holdings Finance Co., LLC, 144A, 5.0%, 6/15/2044	10,000	10,879
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	30,000	30,881
FS Investment Corp., 4.75%, 5/15/2022	40,000	41,072
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	20,000	21,160
Legg Mason, Inc., 5.625%, 1/15/2044	20,000	21,243
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	10,000	10,115
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	20,000	22,744
Santander Holdings U.S.A., Inc., 144A, 3.7%, 3/28/2022	75,000	75,969
Swiss Re Treasury U.S. Corp., 144A, 4.25%, 12/6/2042	20,000	20,564
TC Ziraat Bankasi AS, 144A, 5.125%, 5/3/2022	200,000	200,654
Voya Financial, Inc., 4.8%, 6/15/2046	15,000	15,624
		889,888
Health Care 0.7%		
Abbott Laboratories, 2.9%, 11/30/2021	60,000	60,670
Allergan Funding SCS, 4.75%, 3/15/2045	4,000	4,318
Celgene Corp., 5.0%, 8/15/2045	10,000	11,260
Express Scripts Holding Co.:		
3.4%, 3/1/2027	25,000	24,128
4.8%, 7/15/2046	20,000	20,343
Gilead Sciences, Inc., 4.15%, 3/1/2047	15,000	15,070
Mylan NV, 5.25%, 6/15/2046	25,000	27,348
Stryker Corp., 4.625%, 3/15/2046	10,000	10,925
		174,062

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

	Principal Amount ($)(a)	Value ($)
Industrials 0.3%		
FedEx Corp., 4.55%, 4/1/2046	15,000	15,757
Park Aerospace Holdings Ltd., 144A, 5.25%, 8/15/2022	60,000	62,719
		78,476
Information Technology 1.3%		
Dell International LLC:		
144A, 4.42%, 6/15/2021	100,000	105,422
144A, 8.1%, 7/15/2036	20,000	25,138
DXC Technology Co., 144A, 4.75%, 4/15/2027	90,000	93,842
Seagate HDD Cayman:		
144A, 4.25%, 3/1/2022	30,000	30,494
5.75%, 12/1/2034	30,000	30,012
Xilinx, Inc., 2.95%, 6/1/2024	35,000	35,094
		320,002
Materials 0.9%		
AK Steel Corp., 7.0%, 3/15/2027 (b)	100,000	103,250
CF Industries, Inc., 144A, 4.5%, 12/1/2026	5,000	5,141
Chemours Co., 6.625%, 5/15/2023	60,000	63,450
Glencore Funding LLC, 144A, 4.625%, 4/29/2024	10,000	10,454
Potash Corp. of Saskatchewan, Inc., 4.0%, 12/15/2026	30,000	30,933
		213,228
Real Estate 1.2%		
CBL & Associates LP:		
(REIT), 5.25%, 12/1/2023	40,000	39,019
(REIT), 5.95%, 12/15/2026	40,000	39,609
Crown Castle International Corp., (REIT), 5.25%, 1/15/2023	15,000	16,662
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	60,000	64,315
Host Hotels & Resorts LP, (REIT), 3.875%, 4/1/2024	35,000	35,602
Omega Healthcare Investors, Inc.:		
(REIT), 4.75%, 1/15/2028	35,000	34,940
(REIT), 4.95%, 4/1/2024	30,000	31,421
Select Income REIT:		
(REIT), 4.15%, 2/1/2022	30,000	30,244
(REIT), 4.25%, 5/15/2024	10,000	9,911
		301,723
Telecommunication Services 1.4%		
AT&T, Inc.:		
3.4%, 5/15/2025	50,000	49,154
4.5%, 5/15/2035	35,000	34,433
Frontier Communications Corp., 6.25%, 9/15/2021	100,000	89,250
Telefonica Emisiones SAU, 5.213%, 3/8/2047	150,000	161,960
Verizon Communications, Inc., 4.272%, 1/15/2036	15,000	14,477
		349,274
Utilities 2.3%		
Electricite de France SA, 144A, 4.75%, 10/13/2035	25,000	26,703
Eskom Holdings SOC Ltd., 144A, 6.75%, 8/6/2023	400,000	407,880
Great Plains Energy, Inc., 4.85%, 4/1/2047	20,000	20,580
NRG Energy, Inc., 6.25%, 7/15/2022	100,000	102,625
Southern Power Co., Series F, 4.95%, 12/15/2046	7,000	7,228
		565,016
Total Corporate Bonds (Cost $5,778,010)		**5,816,446**

Mortgage-Backed Securities Pass-Throughs 3.8%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp., 4.5%, 4/1/2047	394,891	423,314
Federal National Mortgage Association, 4.0%, 12/1/2040	482,763	509,928
Total Mortgage-Backed Securities Pass-Throughs (Cost $937,059)		**933,242**

Asset-Backed 1.4%

	Principal Amount ($)(a)	Value ($)
Home Equity Loans 0.1%		
CIT Group Home Equity Loan Trust, "AF6", Series 2002-1, 6.2%, 2/25/2030	22,690	**23,046**
Miscellaneous 1.3%		
Domino's Pizza Master Issuer LLC:		
"A23", Series 2017-1A, 144A, 4.118%, 7/25/2047 (c)	110,000	109,931
"A2", Series 2012-1A, 144A, 5.216%, 1/25/2042	86,691	86,732
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	115,768	114,417
		311,080
Total Asset-Backed (Cost $340,080)		**334,126**

Commercial Mortgage-Backed Securities 4.4%

	Principal Amount ($)(a)	Value ($)
Credit Suisse First Boston Mortgage Securities Corp., "G", Series 2005-C6, 144A, 5.23%**, 12/15/2040	157,444	158,010
CSAIL Commercial Mortgage Trust, "A4", Series 2015-C4, 3.808%, 11/15/2048	110,000	114,962
GMAC Commercial Mortgage Securities, Inc., "G", Series 2004-C1, 144A, 5.455%, 3/10/2038	502,641	494,054
JPMBB Commercial Mortgage Securities Trust:		
"A4", Series 2015-C28, 3.227%, 10/15/2048	170,000	171,839
"A3", Series 2014-C19, 3.669%, 4/15/2047	125,000	129,912
Total Commercial Mortgage-Backed Securities (Cost $1,074,756)		**1,068,777**

Collateralized Mortgage Obligations 5.3%

	Principal Amount ($)(a)	Value ($)
Banc of America Mortgage Securities, "2A2", Series 2004-A, 3.59%**, 2/25/2034	45,292	44,843
Bear Stearns Adjustable Rate Mortgage Trust, "2A1", Series 2005-11, 3.882%**, 12/25/2035	64,704	65,666

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

		Principal Amount ($)(a)	Value ($)
Countrywide Home Loans, "2A5", Series 2004-13, 5.75%, 8/25/2034		41,404	41,181
Fannie Mae Connecticut Avenue Securities, "1M1", Series 2016-C02, 3.174%**, 9/25/2028		131,061	132,936
Federal Home Loan Mortgage Corp.:			
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025		493,883	23,166
"H", Series 4865, 4.0%, 8/15/2044		247,722	262,818
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038		175,979	14,766
"C31", Series 303, Interest Only, 4.5%, 12/15/2042		510,005	100,427
"HI", Series 2934, Interest Only, 5.0%, 2/15/2020		29,403	1,373
"WI", Series 3010, Interest Only, 5.0%, 7/15/2020		47,198	2,119
Federal National Mortgage Association:			
"4", Series 406, Interest Only, 4.0%, 9/25/2040		116,348	22,619
"BI", Series 2010-13, Interest Only, 5.0%, 12/25/2038		1,099	0
Government National Mortgage Association:			
"GI", Series 2014-146, Interest Only, 3.5%, 9/20/2029		1,237,328	162,409
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044		156,772	20,631
"HI", Series 2015-77, Interest Only, 4.0%, 5/20/2045		304,119	57,988
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044		48,720	8,658
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039		153,133	25,823
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039		158,266	28,708
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039		148,858	25,632
JPMorgan Mortgage Trust, "2A1", Series 2006-A2, 3.324%**, 4/25/2036		166,682	161,782
Merrill Lynch Mortgage Investors Trust, "2A", Series 2003-A6, 3.266%**, 10/25/2033		34,958	34,980
Wells Fargo Mortgage-Backed Securities Trust, "2A3",Series 2004-EE, 3.237%**, 12/25/2034		50,289	49,978
Total Collateralized Mortgage Obligations (Cost $1,039,885)			**1,288,503**
Government & Agency Obligations 40.5%			
Other Government Related (d) 3.8%			
Perusahaan Penerbit SBSN, 144A, 4.325%, 5/28/2025		200,000	206,260
Sberbank of Russia, 144A, 5.125%, 10/29/2022		200,000	206,000
Southern Gas Corridor CJSC, 144A, 6.875%, 3/24/2026		290,000	313,925
Vnesheconombank, 144A, 6.025%, 7/5/2022		200,000	214,282
			940,467
Sovereign Bonds 11.8%			
Export Credit Bank of Turkey, 144A, 5.375%, 10/24/2023		200,000	202,000
Government of Indonesia, Series FR56, 8.375%, 9/15/2026	IDR	1,340,000,000	110,900
KazAgro National Management Holding JSC, 144A, 4.625%, 5/24/2023		700,000	696,780
Mexican Udibonos Inflation-Linked Bond, Series S, 2.0%, 6/9/2022	MXN	2,775,632	145,285
Republic of Argentina-Inflation Linked Bond, 5.83%, 12/31/2033	ARS	375	170
Republic of Hungary, Series 19/A, 6.5%, 6/24/2019	HUF	11,600,000	48,187
Republic of Namibia:			
144A, 5.25%, 10/29/2025		200,000	205,790
144A, 5.5%, 11/3/2021		200,000	215,234
Republic of Portugal, 144A, 5.125%, 10/15/2024		400,000	408,000
Republic of Slovenia, 144A, 5.5%, 10/26/2022		100,000	114,090
Republic of Sri Lanka, 144A, 5.75%, 1/18/2022		500,000	517,623
United Mexican States, Series M, 5.75%, 3/5/2026	MXN	3,845,600	197,811
			2,861,870
U.S. Treasury Obligations 24.9%			
U.S. Treasury Bond, 3.0%, 5/15/2047		35,000	36,121
U.S. Treasury Notes:			
0.75%, 10/31/2017 (e)		730,000	729,168
1.5%, 5/31/2019		232,600	233,118
1.625%, 12/31/2019		109,000	109,409
1.625%, 2/15/2026		5,000,000	4,751,955
1.625%, 5/15/2026		50,000	47,402
2.375%, 5/15/2027		150,000	150,949
			6,058,122
Total Government & Agency Obligations (Cost $9,905,047)			**9,860,459**
Short-Term U.S. Treasury Obligation 1.6%			
U.S. Treasury Bill, 0.59%***, 8/10/2017 (f) (Cost $379,638)		380,000	**379,650**
Loan Participations and Assignments 3.6%			
Senior Loans**			
American Rock Salt Holdings LLC, First Lien Term Loan, 4.976%, 5/20/2021		101,750	102,005
Calpine Corp., Term Loan B5, 4.046%, 1/15/2024		191,100	191,046
DaVita HealthCare Partners, Inc., Term Loan B, 3.976%, 6/24/2021		67,900	68,070
Level 3 Financing, Inc., Term Loan B, 3.466%, 2/22/2024		60,000	60,206
MacDermid, Inc., Term Loan B6, 4.226%, 6/7/2023		61,853	62,038
MEG Energy Corp., Term Loan B, 4.696%, 12/31/2023		29,526	28,871
NRG Energy, Inc., Term Loan B, 3.546%, 6/30/2023		114,581	114,567

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

	Principal Amount ($)(a)	Value ($)
Quebecor Media, Inc., Term Loan B1, 3.432%, 8/17/2020	86,625	86,986
Valeant Pharmaceuticals International, Inc., Term Loan B, 5.83%, 4/1/2022	150,556	152,775
Total Loan Participations and Assignments (Cost $863,327)		**866,564**

Convertible Bond 0.5%

Materials

GEO Specialty Chemicals, Inc., 144A, 7.5%, 10/30/2018 (PIK) (Cost $133,424)	134,561	**132,810**

	Shares	Value ($)

Common Stocks 0.0%

Materials

GEO Specialty Chemicals, Inc.* (Cost $19,933)	13,196	**5,000**

Warrant 0.0%

Materials

Hercules Trust II, Expiration Date 3/31/2029* (Cost $17,432)	85	**2,818**

	Shares	Value ($)

Exchange-Traded Funds 8.1%

iShares iBoxx $ High Yield Corporate Bond ETF (b)	9,000	795,510
SPDR Bloomberg Barclays High Yield Bond ETF	25,000	930,000
VanEck Vectors JPMorgan EM Local Currency Bond ETF	12,500	236,125
Total Exchange-Traded Funds (Cost $1,965,475)		**1,961,635**

Securities Lending Collateral 4.5%

Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.87% (g) (h) (Cost $1,094,375)	1,094,375	**1,094,375**

Cash Equivalents 3.2%

Deutsche Central Cash Management Government Fund, 1.03% (g) (Cost $778,005)	778,005	**778,005**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $24,326,446)†	100.8	**24,522,410**
Other Assets and Liabilities, Net	(0.8)	**(201,648)**
Net Assets	100.0	**24,320,762**

* 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, 2017.

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

† The cost for federal income tax purposes was $24,327,830. At June 30, 2017, net unrealized appreciation for all securities based on tax cost was $194,580. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $530,249 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $335,669.

(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, 2017 amounted to $1,065,391, which is 4.4% of net assets.

(c) When-issued security.

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

(e) At June 30, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

(f) At June 30, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures 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.

CJSC: Closed Joint Stock Company

EM: Emerging Markets

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.

JSC: Joint Stock Company

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

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

REIT: Real Estate Investment Trust

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

SPDR: Standard & Poor's Depositary Receipt

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

At June 30, 2017, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation (Depreciation) ($)
10 Year Australian Treasury Bond	AUD	9/15/2017	8	794,792	(10,593)
5 Year U.S. Treasury Note	USD	9/29/2017	12	1,414,031	(8,836)
Ultra Long U.S. Treasury Bond	USD	9/20/2017	1	165,875	3,076
Total net unrealized depreciation					**(16,353)**

At June 30, 2017, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
2 Year U.S. Treasury Note	USD	9/29/2017	15	3,241,641	1,143
Ultra 10 Year U.S. Treasury Note	USD	9/20/2017	20	2,696,250	33,211
Total unrealized appreciation					**34,354**

At June 30, 2017, 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 (Depreciation) ($)
6/20/2022	3,070,000	5.0%	Markit CDX North America High Yield Index	217,441	**(336)**

(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.

As of June 30, 2017, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
JPY	27,755,025	USD	249,257	8/21/2017	1,941	BNP Paribas
USD	591,836	MXN	10,926,000	9/12/2017	3,247	Citigroup, Inc.
Total unrealized appreciation					**5,188**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
MXN	14,500,000	USD	772,695	7/20/2017	(23,509)	Toronto Dominion Bank
EUR	200,000	USD	218,020	7/26/2017	(10,743)	Citigroup, Inc.
USD	250,000	JPY	27,755,025	8/21/2017	(2,684)	JPMorgan Chase Securities, Inc.
Total unrealized depreciation					**(36,936)**	

Currency Abbreviations

ARS	Argentine Peso	IDR	Indonesian Rupiah
AUD	Australian Dollar	JPY	Japanese Yen
EUR	Euro	MXN	Mexican Peso
HUF	Hungarian Forint	USD	United States Dollar

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

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, 2017 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	$ —	$ 5,816,446	$ —	$ 5,816,446
Mortgage-Backed Securities Pass-Throughs	—	933,242	—	933,242
Asset-Backed	—	334,126	—	334,126
Commercial Mortgage-Backed Securities	—	1,068,777	—	1,068,777
Collateralized Mortgage Obligations	—	1,288,503	—	1,288,503
Government & Agency Obligations	—	9,860,459	—	9,860,459
Short-Term U.S. Treasury Obligation	—	379,650	—	379,650
Loan Participations and Assignments	—	866,564	—	866,564
Convertible Bond	—	—	132,810	132,810
Common Stocks	—	—	5,000	5,000
Warrant	—	—	2,818	2,818
Exchange-Traded Funds	1,961,635	—	—	1,961,635
Short-Term Investments (j)	1,872,380	—	—	1,872,380
Derivatives (k)				
Futures Contracts	37,430	—	—	37,430
Forward Foreign Currency Exchange Contracts	—	5,188	—	5,188
Total	**$ 3,871,445**	**$ 20,552,955**	**$ 140,628**	**$ 24,565,028**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (k)				
Futures Contracts	$ (19,429)	$ —	$ —	$ (19,429)
Credit Default Swap Contracts	—	(336)	—	(336)
Forward Foreign Currency Exchange Contracts	—	(36,936)	—	(36,936)
Total	**$ (19,429)**	**$ (37,272)**	**$ —**	**$ (56,701)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2017.

(j) See Investment Portfolio for additional detailed categorizations.

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

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

Statement of Assets and Liabilities

as of June 30, 2017 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $22,454,066) — including $1,065,391 of securities loaned	$	22,650,030
Investments in Deutsche Government & Agency Securities Portfolio (cost $1,094,375)*		1,094,375
Investment in Deutsche Central Cash Management Government Fund (cost $778,005)		778,005
Total investments in securities, at value (cost $24,326,446)		24,522,410
Cash		224,052
Foreign currency, at value (cost $451,952)		438,134
Receivable for investments sold		481,695
Receivable for Fund shares sold		99
Interest receivable		194,871
Receivable for variation margin on centrally cleared swap contracts		160
Net receivable for pending swap contracts		2,733
Unrealized appreciation on forward foreign currency exchange contracts		5,188
Foreign taxes recoverable		632
Other assets		345
Total assets	$	25,870,319
Liabilities		
Payable upon return of securities loaned		1,094,375
Payable for investments purchased		214,052
Payable for investments purchased — when-issued security		110,000
Payable for Fund shares redeemed		7,475
Payable for variation margin on futures contracts		4,403
Unrealized depreciation on forward foreign currency exchange contracts		36,936
Accrued Trustees' fees		398
Other accrued expenses and payables		81,918
Total liabilities		1,549,557
Net assets, at value	**$**	**24,320,762**
Net Assets Consist of		
Undistributed net investment income		263,141
Net unrealized appreciation (depreciation) on:		
Investments		195,964
Swap contracts		(336)
Futures		18,001
Foreign currency		(45,360)
Accumulated net realized gain (loss)		(4,592,084)
Paid-in capital		28,481,436
Net assets, at value	**$**	**24,320,762**
Class A		
Net Asset Value, offering and redemption price per share ($24,320,762 ÷ 2,444,052 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**9.95**

* 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, 2017 (Unaudited)

Investment Income		
Income:		
Interest (net of foreign taxes withheld of $417)	$	333,897
Dividends		53,356
Income distributions — Deutsche Central Cash Management Government Fund		4,878
Securities lending income, net of borrower rebates		5,766
Total income		397,897
Expenses:		
Management fee		66,787
Administration fee		12,143
Services to shareholders		353
Custodian fee		14,743
Professional fees		43,695
Reports to shareholders		11,133
Trustees' fees and expenses		1,690
Pricing service fee		11,015
Other		1,115
Total expenses before expense reductions		162,674
Expense reductions		(81,255)
Total expenses after expense reductions		81,419
Net investment income		**316,478**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(49,997)
Swap contracts		178,849
Futures		184,019
Written options		93,862
Foreign currency		(23,480)
		383,253
Change in net unrealized appreciation (depreciation) on:		
Investments		610,696
Swap contracts		(380,606)
Futures		118,956
Written options		(86,505)
Foreign currency		(14,811)
		247,730
Net gain (loss)		**630,983**
Net increase (decrease) in net assets resulting from operations	**$**	**947,461**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations:		
Net investment income	$ 316,478	$ 620,959
Net realized gain (loss)	383,253	(1,726,036)
Change in net unrealized appreciation (depreciation)	247,730	1,292,328
Net increase (decrease) in net assets resulting from operations	947,461	187,251
Distributions to shareholders from:		
Net investment income:		
Class A	(201,605)	(2,341,380)
Total distributions	(201,605)	(2,341,380)
Fund share transactions:		
Class A		
Proceeds from shares sold	500,027	1,180,584
Reinvestment of distributions	201,605	2,341,380
Payments for shares redeemed	(1,850,201)	(9,433,108)
Net increase (decrease) in net assets from Class A share transactions	(1,148,569)	(5,911,144)
Increase (decrease) in net assets	(402,713)	(8,065,273)
Net assets at beginning of period	24,723,475	32,788,748
Net assets at end of period (including undistributed net investment income of $263,141 and $148,268, respectively)	**$ 24,320,762**	**$ 24,723,475**

Other Information		
Class A		
Shares outstanding at beginning of period	2,560,974	3,142,272
Shares sold	50,544	115,644
Shares issued to shareholders in reinvestment of distributions	20,405	245,171
Shares redeemed	(187,871)	(942,113)
Net increase (decrease) in Class A shares	(116,922)	(581,298)
Shares outstanding at end of period	**2,444,052**	**2,560,974**

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

Financial Highlights

Class A	Six Months Ended 6/30/17 (Unaudited)	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data						
Net asset value, beginning of period	**$ 9.65**	**$10.43**	**$11.20**	**$11.53**	**$12.60**	**$11.90**
Income (loss) from investment operations:						
Net investment income[a]	.13	.22	.40	.49	.49	.57
Net realized and unrealized gain (loss)	.25	(.17)	(.72)	(.23)	(.59)	.92
Total from investment operations	.38	.05	(.32)	.26	(.10)	1.49
Less distributions from:						
Net investment income	(.08)	(.83)	(.45)	(.59)	(.62)	(.76)
Net realized gains	—	—	—	—	(.35)	(.03)
Total distributions	(.08)	(.83)	(.45)	(.59)	(.97)	(.79)
Net asset value, end of period	**$ 9.95**	**$ 9.65**	**$10.43**	**$11.20**	**$11.53**	**$12.60**
Total Return (%)[b]	3.96**	.50	(3.02)	2.23	(1.04)	13.08
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	24	25	33	54	61	73
Ratio of expenses before expense reductions (%)[c]	1.34*	1.31	1.15	1.08	1.02	.99
Ratio of expenses after expense reductions (%)[c]	.67*	.68	.70	.77	.74	.77
Ratio of net investment income (%)	2.61*	2.19	3.67	4.23	4.16	4.72
Portfolio turnover rate (%)	59**	159	185	185	183	164

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and fees 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.

* 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of June 30, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of June 30, 2017) on the cash collateral invested in Deutsche Government & Agency Securities Portfolio. 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, 2017, the Fund had securities on loan, which were classified as corporate bonds and exchange-traded funds 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, 2017

	Overnight and Continuous	<30 days	Between 30 & 90 days	>90 days	Total
Securities Lending Transactions					
Corporate Bonds	$ 311,375	$ —	$ —	$ —	$ 311,375
Exchange-Traded Funds	783,000	—	—	—	783,000
Total Borrowings	**$ 1,094,375**	**$ —**	**$ —**	**$ —**	**$ 1,094,375**
Gross amount of recognized liabilities for securities lending transactions					$ 1,094,375

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, 2016, the Fund had net tax basis capital loss carryforwards of approximately $5,075,000, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($2,624,000) and long-term losses ($2,451,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, 2017, the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

There were no open interest rate swap contracts as of June 30, 2017. For the six months ended June 30, 2017, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $0 to $17,200,000.

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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $2,772,000 to $3,070,000.

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, 2017, 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.

There were no open purchased or written option contracts as of June 30, 2017 For the six months ended June 30, 2017, the investment in purchased option contracts had a total value generally indicative of a range from $0 to approximately $15,000, and written option contracts had a total value generally indicative of a range from $0 to approximately $116,000.

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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $2,375,000 to $8,144,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $134,000 to $5,938,000.

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, 2017, 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, 2017, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2017, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $1,240,000 to $2,150,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $638,000 to $1,551,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2017 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Forward Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ 37,430	$ 37,430
Foreign Exchange Contracts (b)	5,188	—	5,188
	$ 5,188	**$ 37,430**	**$ 42,618**

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

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

(b) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (c)	$ —	$ —	$ (19,429)	$ (19,429)
Credit Contracts (c)	—	(336)	—	(336)
Foreign Exchange Contracts (d)	(36,936)	—	—	(36,936)
	$ (36,936)	**$ (336)**	**$ (19,429)**	**$ (56,701)**

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

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

(d) 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, 2017 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 (e)	$ (225,738)	$ 93,862	$ —	$ 21,933	$ 184,019	$ 74,076
Credit Contracts (e)	—	—	—	156,916	—	156,916
Foreign Exchange Contracts (f)	—	—	(63,636)	—	—	(63,636)
	$ (225,738)	**$ 93,862**	**$ (63,636)**	**$ 178,849**	**$ 184,019**	**$ 167,356**

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

(e) Net realized gain (loss) from investments (includes purchased options), written options, swap contracts and futures, respectively

(f) 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 (g)	$ 210,480	$ (86,505)	$ —	$ (290,521)	$ 118,956	$ (47,590)
Credit Contracts (g)	—	—	—	(90,085)	—	(90,085)
Foreign Exchange Contracts (h)	—	—	(32,511)	—	—	(32,511)
	$ 210,480	**$ (86,505)**	**$ (32,511)**	**$ (380,606)**	**$ 118,956**	**$ (170,186)**

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

(g) Change in net unrealized appreciation (depreciation) on investments (includes purchased options), written options, swap contracts and futures, respectively

(h) 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, 2017, the Fund has transactions subject to enforceable master netting agreements which govern the terms of certain transactions, and reduce the counterparty risk associated with such transactions. Master netting agreements allow a Fund to close out and net total exposure to a counterparty in the event of a deterioration in the credit quality or contractual default with respect to all of the transactions with a counterparty. As defined by the master netting agreement, the Fund may have collateral agreements with certain counterparties to mitigate risk. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivatives assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by a 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
BNP Paribas	$ 1,941	$ —	$ —	$ 1,941
Citigroup, Inc.	3,247	(3,247)	—	—
	$ 5,188	**$ (3,247)**	**$ —**	**$ 1,941**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Citigroup, Inc.	$ 10,743	$ (3,247)	$ —	$ 7,496
JPMorgan Chase Securities, Inc.	2,684	—	—	2,684
Toronto-Dominion Bank	23,509	—	—	23,509
	$ 36,936	**$ (3,247)**	**$ —**	**$ 33,689**

C. Purchases and Sales of Securities

During the six months ended June 30, 2017, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $12,103,935 and $12,697,181, respectively. Purchases and sales of U.S. Treasury obligations aggregated $1,002,989 and $1,070,344, respectively.

For the six months ended June 30, 2017, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	2,800,000	$ 202,062
Options bought back	(1,400,000)	(101,031)
Options expired	(1,400,000)	(101,031)
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 or delegates such responsibility to the Fund's subadvisor.

Effective March 1, 2017, Deutsche Alternative Asset Management (Global) Limited (DAAM Global), also an indirect, wholly owned subsidiary of Deutsche Bank AG, serves as subadvisor for the Fund and, as such, provides portfolio manager services to the Fund. Pursuant to a sub-advisory agreement between DIMA and DAAM Global, DIMA, not the Fund, compensates DAAM Global for the services it provides to the Fund.

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

First $250 million	.550%
Next $750 million	.520%
Next $1.5 billion	.500%
Next $2.5 billion	.480%
Next $2.5 billion	.450%
Next $2.5 billion	.430%
Next $2.5 billion	.410%
Over $12.5 billion	.390%

Accordingly, for the six months ended June 30, 2017, 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, 2017 through April 30, 2018, 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 0.67%.

For the six months ended June 30, 2017, fees waived and/or expenses reimbursed amounted to $81,255.

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, 2017, the Administration Fee was $12,143, of which $2,006 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, 2017, the amounts charged to the Fund by DSC aggregated $65, of which $32 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, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $7,543, 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $434.

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, 2017, 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 41%.

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, 2017.

I. Fund Name Change

Effective on or about October 2, 2017, the Fund will be renamed Deutsche Multisector Income VIP, to better reflect the Fund's investment strategy.

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, 2017 to June 30, 2017).

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, 2017

Actual Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,039.60
Expenses Paid per $1,000*	$ 3.39

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/17	$1,000.00
Ending Account Value 6/30/17	$1,021.47
Expenses Paid per $1,000*	$ 3.36

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Unconstrained Income VIP	.67%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Unconstrained Income VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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, 2015. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Sub-Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees of Deutsche Variable Series II (hereinafter referred to as the "Board" or "Trustees") approved a sub-advisory agreement (the "Sub-Advisory Agreement") between Deutsche Investment Management Americas Inc. ("DIMA") and Deutsche Alternative Asset Management (Global) Limited ("DAAM Global"), a U.K.-based affiliate of DIMA and an indirect, wholly owned subsidiary of Deutsche Bank AG, on behalf of Deutsche Unconstrained Income VIP (the "Fund") at an in-person meeting in February 2017. In February 2017, all of the Fund's Trustees were independent of DIMA and its affiliates. DIMA relied on a manager of managers exemptive order granted to DIMA and the Fund by the SEC that permits DIMA, subject to the approval of the Board, to select sub-advisors that are affiliated with DIMA to manage all or a portion of the Fund's assets without obtaining shareholder approval. The Sub-Advisory Agreement became effective on March 1, 2017.

In determining to approve the Sub-Advisory Agreement, the Board considered the capabilities of DAAM Global and the terms of the Sub-Advisory Agreement, including the sub-advisory fee schedule. The Board considered that the Sub-Advisory Agreement was proposed by DIMA to allow for the relocation of one of the Fund's portfolio managers from New York to London. The Board considered that the appointment of DAAM Global was not expected to impact the Fund's expenses, and that pursuant to the Sub-Advisory Agreement, DAAM Global would be paid for its services by DIMA from its fees as investment advisor to the Fund. The Board noted DIMA's representation that its profitability in connection with the management of the Fund would likely decline under the new sub-advisory arrangement.

Given that DAAM Global is an affiliate of DIMA, the Board additionally took into account the factors that it considered as part of the process that it followed in approving the annual renewal of the Fund's investment management agreement with DIMA in September 2016.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the approval of the Sub-Advisory Agreement was in the best interests of the Fund. In making this determination the Board did not give particular weight to any single factor. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the Sub-Advisory Agreement.

Notes

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Deutsche
Asset Management

VS2UI-3 (R-028389-6 8/17)

Dreyfus Investment Portfolios, MidCap Stock Portfolio

SEMIANNUAL REPORT
June 30, 2017

BNY MELLON | Dreyfus

The views expressed in this report reflect those of the portfolio manager(s) 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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A LETTER FROM THE CEO OF DREYFUS

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, 2017 through June 30, 2017. 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 generally rallied over the first half of 2017 as corporate earnings grew and global economic conditions improved. While the rally was relatively broad-based, U.S. stock market leadership shifted toward larger, growth-oriented companies and away from smaller, economically sensitive companies that had been expected to benefit from a new presidential administration's stimulative policy proposals. International stocks fared particularly well amid more positive economic data from Europe and the emerging markets. In the bond market, despite short-term interest-rate hikes from the Federal Reserve Board, yields of longer-term U.S. government securities moderated somewhat and prices rose when it became clear that major tax and fiscal reforms would take time and political capital to enact.

The markets' strong performance has been supported by solid underlying fundamentals, most notably rising corporate profits, a robust labor market, and muted inflation. While we currently expect these favorable conditions to persist over the second half of the year, we remain watchful for economic and political risks that could derail the rallies. As always, we encourage you to discuss the risks and opportunities of today's investment environment with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

Mark D. Santero
Chief Executive Officer
The Dreyfus Corporation
July 17, 2017

DISCUSSION OF FUND PERFORMANCE

For the period from January 1, 2017 through June 30, 2017, as provided by C. Wesley Boggs, William S. Cazalet, CAIA, Ronald P. Gala, CFA, Peter D. Goslin, CFA, and Syed A. Zamil, CFA, Portfolio Managers

Market and Fund Performance Overview

For the six-month period ended June 30, 2017, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of 4.48%, and its Service shares produced a total return of 4.33%.[1] In comparison, the fund's benchmark, the S&P MidCap 400® Index (the "Index"), produced a total return of 5.99% for the same period.[2]

Mid-cap stocks gained ground over the first half of 2017 amid better-than-expected corporate earnings reports and favorable global economic developments. The fund lagged its benchmark, primarily due to shortfalls in the information technology, consumer discretionary, utilities, and real estate sectors.

Effective March 9, 2017, Peter D. Goslin and Syed A. Zamil became portfolio managers for the fund.

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 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 Index is a primary goal of the investment process.

The portfolio managers select stocks through a "bottom-up," structured approach that seeks to identify undervalued securities using a quantitative ranking process. The process is driven by a proprietary quantitative model that measures a diverse set of corporate characteristics to identify and rank stocks based on valuation, momentum and sentiment and earnings quality measures.

Earnings and Economic Growth Supported Ongoing Rally

Over the first half of 2017, equities generally continued to build on gains achieved during the final months of 2016. Consecutive quarters of better-than-expected corporate earnings and encouraging global economic developments drove the Index to a series of new highs in February and early March. While concerns about the new U.S. presidential administration's ability to implement its business-friendly policy proposals slowed the pace of the market's advance in the early spring, mid-cap stocks quickly erased those losses and reached new all-time highs in June.

Eight of the Index's eleven market sectors produced positive absolute returns during the reporting period, led by the health care and information technology sectors. In contrast, the energy sector was undermined by weakening oil and gas prices, and telecommunication services stocks also posted negative returns during the period.

Fund Strategies Produced Mixed Results

The fund participated significantly in the Index's gains over the first half of the year, but its relative performance was constrained by some security selection and industry allocation shortfalls. In the information technology sector, disappointing stock picks, particularly among software companies, weighed on results compared to the Index. In addition, the fund's security selection process proved relatively ineffective in the utilities and real estate sectors. An overweight exposure and disappointing stock selection detracted from performance within the specialty retail industry in the consumer discretionary sector.

Among individual holdings, bedding manufacturer *Tempur Sealy International* lost value when a contract was terminated with a key retailer of the company's products. Industrial distributor *HD Supply Holdings* declined when it missed quarterly earnings targets and announced a divestiture that was expected to be dilutive to earnings. Real estate investment trust Tanger Factory Outlet Centers declined sharply when it reduced future earnings guidance in an increasingly challenging retail environment.

On a more positive note, the fund achieved better-than-average results in the lagging energy sector, in part due to underweighted exposure to energy equipment providers. Stock selection in the oil, gas, and consumable fuels industry also added value to the energy sector. The fund also benefited from relatively strong stock selections in the financials sector. The top individual performer for the reporting period was medical instruments supplier Mettler-Toledo International, which reported better-than-expected earnings and issued higher future earnings guidance to analysts. In the industrials sector, homebuilder NVR advanced steadily over the reporting period after a positive earnings surprise in January. In the materials sector, glass containers manufacturer Owens-Illinois reported better-than-expected earnings over two consecutive quarters.

A Disciplined Approach to Stock Picking

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 17, 2017

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 those of 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. — The S&P MidCap 400® Index provides investors with a benchmark for mid-sized companies. The index measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. 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, 2017 to June 30, 2017. 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, 2017

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.41	$ 5.67
Ending value (after expenses)	$ 1,044.80	$ 1,043.30

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, 2017

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.36	$ 5.61
Ending value (after expenses)	$ 1,020.48	$ 1,019.24

† *Expenses are equal to the fund's annualized expense ratio of .87% for Initial shares and 1.12% for Service shares, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS
June 30, 2017 (Unaudited)

Common Stocks - 99.4%	Shares	Value ($)
Automobiles & Components - .3%		
Visteon	5,300 [a]	**540,918**
Banks - 6.2%		
Cathay General Bancorp	69,395	2,633,540
Comerica	15,100	1,105,924
Commerce Bancshares	5,187 [b]	294,777
East West Bancorp	15,465	905,940
First Horizon National	156,960 [b]	2,734,243
Synovus Financial	75,290	3,330,830
UMB Financial	2,600	194,636
Washington Federal	13,300	441,560
		11,641,450
Capital Goods - 13.8%		
A.O. Smith	23,000	1,295,590
Curtiss-Wright	31,900	2,927,782
Donaldson	71,200	3,242,448
GATX	33,585 [b]	2,158,508
Huntington Ingalls Industries	2,765	514,732
Jacobs Engineering Group	9,500	516,705
Lennox International	18,875	3,466,205
Oshkosh	42,800	2,948,064
Owens Corning	22,990	1,538,491
Spirit AeroSystems Holdings, Cl. A	39,955	2,314,993
Toro	49,000	3,395,210
Woodward	25,670	1,734,779
		26,053,507
Commercial & Professional Services - .8%		
MSA Safety	18,900	**1,534,113**
Consumer Durables & Apparel - 4.7%		
Brunswick	54,420	3,413,767
KB Home	78,680 [b]	1,885,960
NVR	1,470 [a,b]	3,543,597
		8,843,324
Consumer Services - 1.7%		
Darden Restaurants	28,265	2,556,287
International Speedway, Cl. A	16,000	600,800
		3,157,087

Common Stocks - 99.4% (continued)	Shares	Value ($)
Diversified Financials - 2.9%		
Eaton Vance	68,600	3,246,152
SEI Investments	42,800	2,301,784
		5,547,936
Energy - 2.7%		
Cimarex Energy	8,300	780,283
CONSOL Energy	48,400 [a,b]	723,096
ONEOK	46,700	2,435,872
World Fuel Services	32,050	1,232,322
		5,171,573
Food, Beverage & Tobacco - 3.0%		
ConAgra Foods	62,400	2,231,424
Ingredion	26,450	3,153,104
Tootsie Roll Industries	6,000 [b]	209,100
		5,593,628
Health Care Equipment & Services - 6.7%		
Halyard Health	41,200 [a]	1,618,336
Hologic	34,925 [a]	1,584,896
Masimo	33,100 [a]	3,018,058
Teleflex	13,575	2,820,342
WellCare Health Plans	20,100 [a]	3,609,156
		12,650,788
Household & Personal Products - 1.6%		
Church & Dwight	49,300	2,557,684
Spectrum Brands Holdings	3,800 [b]	475,152
		3,032,836
Insurance - 5.7%		
CNO Financial Group	136,360	2,847,197
Everest Re Group	3,770	959,804
Old Republic International	124,260	2,426,798
Primerica	38,445 [b]	2,912,209
Reinsurance Group of America	12,945	1,662,009
		10,808,017
Materials - 9.5%		
Cabot	10,795	576,777
Celanese, Ser. A	12,900	1,224,726
Chemours	23,700	898,704
Eagle Materials	18,100	1,672,802
Greif, Cl. A	24,800 [b]	1,383,344
Huntsman	13,700	354,008

Common Stocks - 99.4% (continued)	Shares	Value ($)
Materials - 9.5% (continued)		
Louisiana-Pacific	55,700 [a]	1,342,927
Owens-Illinois	134,700 [a]	3,222,024
Reliance Steel & Aluminum	32,420	2,360,500
Sensient Technologies	11,600	934,148
Steel Dynamics	33,545	1,201,246
Worthington Industries	55,445 [b]	2,784,448
		17,955,654
Media - 2.1%		
John Wiley & Sons, Cl. A	27,800	1,466,450
Meredith	42,000 [b]	2,496,900
		3,963,350
Pharmaceuticals, Biotechnology & Life Sciences - 4.6%		
Agilent Technologies	19,150	1,135,786
Charles River Laboratories International	25,820 [a]	2,611,693
Mettler-Toledo International	4,650 [a]	2,736,711
United Therapeutics	16,875 [a]	2,189,194
		8,673,384
Real Estate - 7.5%		
Brixmor Property Group	8,800 [c]	157,344
First Industrial Realty Trust	100,400 [c]	2,873,448
Hospitality Properties Trust	17,635 [c]	514,060
Kilroy Realty	20,355 [c]	1,529,678
Lamar Advertising, Cl. A	45,095 [b,c]	3,317,639
Tanger Factory Outlet Centers	65,700 [c]	1,706,886
Urban Edge Properties	78,400 [c]	1,860,432
Weingarten Realty Investors	71,570 [b,c]	2,154,257
		14,113,744
Retailing - 4.7%		
Best Buy	28,200	1,616,706
Big Lots	52,040 [b]	2,513,532
Burlington Stores	18,500 [a]	1,701,815
Chico's FAS	138,000	1,299,960
Dick's Sporting Goods	33,900 [b]	1,350,237
Foot Locker	6,180	304,550
		8,786,800
Semiconductors & Semiconductor Equipment - 1.5%		
Cirrus Logic	44,600 [a]	**2,797,312**
Software & Services - 9.7%		
Acxiom	31,250 [a]	811,875

Common Stocks - 99.4% (continued)	Shares	Value ($)
Software & Services - 9.7% (continued)		
CDK Global	31,400	1,948,684
Citrix Systems	3,525 [a]	280,520
Convergys	90,365	2,148,880
DST Systems	51,800	3,196,060
Fair Isaac	16,900	2,356,029
Manhattan Associates	59,150 [a]	2,842,749
MAXIMUS	48,100 [b]	3,012,503
Science Applications International	19,900	1,381,458
VeriSign	3,380 [a,b]	314,205
		18,292,963
Technology Hardware & Equipment - 5.8%		
Belden	23,880	1,801,268
Dolby Laboratories, Cl. A	26,600	1,302,336
F5 Networks	4,800 [a]	609,888
Juniper Networks	48,000	1,338,240
NCR	74,935 [a]	3,060,345
Tech Data	9,600 [a]	969,600
Vishay Intertechnology	110,200 [b]	1,829,320
		10,910,997
Utilities - 3.9%		
FirstEnergy	58,775	1,713,879
MDU Resources Group	113,300	2,968,460
Westar Energy	52,390	2,777,718
		7,460,057
Total Common Stocks (cost $159,818,387)		**187,529,438**
Other Investment - .4%		
Registered Investment Company;		
Dreyfus Institutional Preferred Government Plus Money Market Fund (cost $678,642)	678,642 [d]	**678,642**

Investment of Cash Collateral for Securities Loaned - 5.5%	Shares	Value($)
Registered Investment Company;		
Dreyfus Institutional Preferred Money Market Fund, Hamilton Shares (cost $10,435,238)	10,435,238 [d]	**10,435,238**
Total Investments (cost $170,932,267)	**105.3%**	**198,643,318**
Liabilities, Less Cash and Receivables	**(5.3%)**	**(10,065,798)**
Net Assets	**100.0%**	**188,577,520**

[a] *Non-income producing security.*
[b] *Security, or portion thereof, on loan. At June 30, 2017, the value of the fund's securities on loan was $24,044,657 and the value of the collateral held by the fund was $24,563,441, consisting of cash collateral of $10,435,238 and U.S. Government & Agency securities valued at $14,128,203.*
[c] *Investment in real estate investment trust.*
[d] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited) †	Value (%)
Capital Goods	13.8
Software & Services	9.7
Materials	9.5
Real Estate	7.5
Health Care Equipment & Services	6.7
Banks	6.2
Money Market Investments	5.9
Technology Hardware & Equipment	5.8
Insurance	5.7
Consumer Durables & Apparel	4.7
Retailing	4.7
Pharmaceuticals, Biotechnology & Life Sciences	4.6
Utilities	3.9
Food, Beverage & Tobacco	3.0
Diversified Financials	2.9
Energy	2.7
Media	2.1
Consumer Services	1.7
Household & Personal Products	1.6
Semiconductors & Semiconductor Equipment	1.5
Commercial & Professional Services	.8
Automobiles & Components	.3
	105.3

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

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2017 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments		
(including securities on loan, valued at $24,044,657)—Note 1(b):		
Unaffiliated issuers	159,818,387	187,529,438
Affiliated issuers	11,113,880	11,113,880
Cash		25,414
Receivable for investment securities sold		427,774
Dividends and securities lending income receivable		194,997
Prepaid expenses and other assets		3,507
		199,295,010
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		137,860
Liability for securities on loan—Note 1(b)		10,435,238
Payable for shares of Beneficial Interest redeemed		100,276
Accrued expenses		44,116
		10,717,490
Net Assets ($)		**188,577,520**
Composition of Net Assets ($):		
Paid-in capital		152,750,854
Accumulated undistributed investment income—net		498,121
Accumulated net realized gain (loss) on investments		7,617,494
Accumulated net unrealized appreciation (depreciation)		
on investments		27,711,051
Net Assets ($)		**188,577,520**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	119,909,955	68,667,565
Shares Outstanding	5,869,591	3,373,123
Net Asset Value Per Share ($)	**20.43**	**20.36**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2017 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	1,351,517
Affiliated issuers	2,542
Income from securities lending—Note 1(b)	22,300
Interest	10
Total Income	**1,376,369**
Expenses:	
Management fee—Note 3(a)	704,704
Distribution fees—Note 3(b)	82,855
Prospectus and shareholders' reports	35,852
Professional fees	33,151
Trustees' fees and expenses—Note 3(c)	23,201
Custodian fees—Note 3(b)	6,633
Loan commitment fees—Note 2	1,860
Shareholder servicing costs—Note 3(b)	852
Miscellaneous	10,572
Total Expenses	**899,680**
Less—reduction in fees due to earnings credits—Note 3(b)	(71)
Net Expenses	**899,609**
Investment Income—Net	**476,760**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	7,705,868
Net unrealized appreciation (depreciation) on investments	453
Net Realized and Unrealized Gain (Loss) on Investments	**7,706,321**
Net Increase in Net Assets Resulting from Operations	**8,183,081**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations ($):		
Investment income—net	476,760	1,868,362
Net realized gain (loss) on investments	7,705,868	3,001,502
Net unrealized appreciation (depreciation) on investments	453	19,665,475
Net Increase (Decrease) in Net Assets Resulting from Operations	**8,183,081**	**24,535,339**
Distributions to Shareholders from ($):		
Investment income—net:		
Initial Shares	(1,318,278)	(1,238,123)
Service Shares	(571,428)	(437,208)
Net realized gain on investments:		
Initial Shares	(1,947,592)	(8,219,760)
Service Shares	(1,048,153)	(3,656,285)
Total Distributions	**(4,885,451)**	**(13,551,376)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	2,998,957	9,957,409
Service Shares	8,827,560	15,951,441
Distributions reinvested:		
Initial Shares	3,265,870	9,457,883
Service Shares	1,619,581	4,093,493
Cost of shares redeemed:		
Initial Shares	(11,686,009)	(26,474,897)
Service Shares	(6,944,564)	(9,488,390)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**(1,918,605)**	**3,496,939**
Total Increase (Decrease) in Net Assets	**1,379,025**	**14,480,902**
Net Assets ($):		
Beginning of Period	187,198,495	172,717,593
End of Period	**188,577,520**	**187,198,495**
Undistributed investment income—net	498,121	1,911,067
Capital Share Transactions (Shares):		
Initial Shares		
Shares sold	146,951	530,948
Shares issued for distributions reinvested	163,703	537,991
Shares redeemed	(574,337)	(1,445,546)
Net Increase (Decrease) in Shares Outstanding	**(263,683)**	**(376,607)**
Service Shares		
Shares sold	436,186	863,832
Shares issued for distributions reinvested	81,427	233,381
Shares redeemed	(342,313)	(514,524)
Net Increase (Decrease) in Shares Outstanding	**175,300**	**582,689**

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, 2017 (Unaudited)	Year Ended December 31, 2016	2015	2014	2013	2012
Per Share Data ($):						
Net asset value, beginning of period	20.09	18.95	23.03	20.87	15.68	13.16
Investment Operations:						
Investment income—net[a]	.06	.21	.18	.14	.20	.23
Net realized and unrealized gain (loss) on investments	.83	2.50	(.50)	2.35	5.24	2.36
Total from Investment Operations	.89	2.71	(.32)	2.49	5.44	2.59
Distributions:						
Dividends from investment income—net	(.22)	(.21)	(.14)	(.21)	(.25)	(.07)
Dividends from net realized gain on investments	(.33)	(1.36)	(3.62)	(.12)	-	-
Total Distributions	(.55)	(1.57)	(3.76)	(.33)	(.25)	(.07)
Net asset value, end of period	20.43	20.09	18.95	23.03	20.87	15.68
Total Return (%)	4.48[b]	15.47	(2.29)	12.09	34.99	19.67
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	.87[c]	.85	.85	.85	.86	.85
Ratio of net expenses to average net assets	.87[c]	.85	.85	.85	.86	.85
Ratio of net investment income to average net assets	.59[c]	1.16	.89	.64	1.11	1.58
Portfolio Turnover Rate	36.03[b]	65.52	80.27	83.06	68.72	73.96
Net Assets, end of period ($ x 1,000)	119,910	123,226	123,354	160,482	158,682	128,410

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

Service Shares	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016	2015	2014	2013	2012
Per Share Data ($):						
Net asset value, beginning of period	20.00	18.88	22.97	20.83	15.65	13.14
Investment Operations:						
Investment income—net[a]	.03	.17	.15	.09	.16	.19
Net realized and unrealized gain (loss) on investments	.84	2.47	(.52)	2.34	5.23	2.35
Total from Investment Operations	.87	2.64	(.37)	2.43	5.39	2.54
Distributions:						
Dividends from investment income—net	(.18)	(.16)	(.10)	(.17)	(.21)	(.03)
Dividends from net realized gain on investments	(.33)	(1.36)	(3.62)	(.12)	-	-
Total Distributions	(.51)	(1.52)	(3.72)	(.29)	(.21)	(.03)
Net asset value, end of period	20.36	20.00	18.88	22.97	20.83	15.65
Total Return (%)	4.33[b]	15.20	(2.52)	11.76	34.70	19.34
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	1.12[c]	1.10	1.10	1.10	1.11	1.10
Ratio of net expenses to average net assets	1.12[c]	1.10	1.10	1.10	1.11	1.10
Ratio of net investment income to average net assets	.35[c]	.94	.72	.40	.86	1.32
Portfolio Turnover Rate	36.03[b]	65.52	80.27	83.06	68.72	73.96
Net Assets, end of period ($ x 1,000)	68,668	63,972	49,363	35,213	23,838	17,836

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

NOTES TO FINANCIAL STATEMENTS (Unaudited)

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 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 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, 2017 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†	187,529,438	-	-	**187,529,438**
Registered Investment Companies	11,113,880	-	-	**11,113,880**

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

At June 30, 2017, 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, 2017, The Bank of New York Mellon earned $5,172 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, 2017 were as follows:

Affiliated Investment Company	Value 12/31/2016 ($)	Purchases ($)	Sales ($)	Value 6/30/2017 ($)	Net Assets (%)
Dreyfus Institutional Preferred Government Plus Money Market Fund	1,199,499	12,249,810	12,770,667	678,642	.4
Dreyfus Institutional Preferred Money Market Fund, Hamilton Shares	12,494,102	64,114,465	66,173,329	10,435,238	5.5
Total	**13,693,601**	**76,364,275**	**78,943,996**	**11,113,880**	**5.9**

(d) Dividends and distributions to shareholders: Dividends and distributions 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, 2017, 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, 2017, the fund did not incur any interest or penalties.

Each tax year in the three-year period ended December 31, 2016 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, 2016 was as follows: ordinary income $1,675,331 and long-term capital gains $11,876,045. 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 an $810 million unsecured credit facility led by Citibank, N.A. and a $300 million unsecured credit facility provided by The Bank of New York Mellon (each, a "Facility"), each to be utilized primarily for temporary or emergency purposes, including the financing of redemptions. In connection therewith, the fund has agreed to pay its pro rata portion of commitment fees for each Facility. Interest is charged to the fund based on rates determined pursuant to the terms of the respective Facility at the time of borrowing. During the period ended June 30, 2017, 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, 2017, Service shares were charged $82,855 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, 2017, the fund was charged $436 for transfer agency services and $55 for cash management services. These fees are included in Shareholder servicing costs in the Statement of Operations. Cash management fees were offset by earnings credits of $55.

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, 2017, the fund was charged $6,633 pursuant to the custody agreement. These fees were partially offset by earnings credits of $16.

During the period ended June 30, 2017, the fund was charged $5,598 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 $116,513, Distribution Plan fees $14,130, custodian fees $4,152, Chief Compliance Officer fees $2,802 and transfer agency fees $263.

(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, 2017, amounted to $67,808,638 and $74,135,138, respectively.

At June 30, 2017, accumulated net unrealized appreciation on investments was $27,711,051, consisting of $31,818,328 gross unrealized appreciation and $4,107,277 gross unrealized depreciation.

At June 30, 2017, 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

NOTES

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, D.C. 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 Sustainable U.S. Equity Portfolio, Inc.

SEMIANNUAL REPORT
June 30, 2017

BNY MELLON | Dreyfus

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A LETTER FROM THE CEO OF DREYFUS

Dear Shareholder:

We are pleased to present this semiannual report for The Dreyfus Sustainable U.S. Equity Portfolio, Inc., covering the six-month period from January 1, 2017 through June 30, 2017. 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 generally rallied over the first half of 2017 as corporate earnings grew and global economic conditions improved. While the rally was relatively broad-based, U.S. stock market leadership shifted toward larger, growth-oriented companies and away from smaller, economically sensitive companies that had been expected to benefit from a new presidential administration's stimulative policy proposals. International stocks fared particularly well amid more positive economic data from Europe and the emerging markets. In the bond market, despite short-term interest-rate hikes from the Federal Reserve Board, yields of longer-term U.S. government securities moderated somewhat and prices rose when it became clear that major tax and fiscal reforms would take time and political capital to enact.

The markets' strong performance has been supported by solid underlying fundamentals, most notably rising corporate profits, a robust labor market, and muted inflation. While we currently expect these favorable conditions to persist over the second half of the year, we remain watchful for economic and political risks that could derail the rallies. As always, we encourage you to discuss the risks and opportunities of today's investment environment with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

Mark D. Santero
Chief Executive Officer
The Dreyfus Corporation
January 17, 2017

DISCUSSION OF FUND PERFORMANCE

For the period from January 1, 2017 through June 30, 2017, as provided by portfolio managers John Gilmore, Jeff Munroe, and Terry Coles of Newton Investment Management (North America) Limited, Sub-Investment Adviser

Market and Fund Performance Overview

For the six-month period ended June 30, 2017, The Dreyfus Sustainable U.S. Equity Portfolio, Inc.'s Initial shares produced a total return of 7.66%, and the fund's Service shares returned 7.49%.[1] In comparison, the fund's benchmark, the S&P 500® Index (the "Index"), produced a total return of 9.33% for the same period.[2]

U.S. stocks gained ground amid better-than-expected corporate earnings and improving global economic growth prospects. The fund produced lower returns than its benchmark, primarily due to security selection shortfalls in the consumer discretionary, consumer staples, and industrials sectors.

Effective May 1, 2017, The Dreyfus Socially Responsible Growth Fund, Inc. was renamed The Dreyfus Sustainable U.S. Equity Portfolio, Inc. In addition, Newton Investment Management (North America) replaced Mellon Capital Management as the sub-investment adviser to the fund, and John Gilmore, Jeff Munroe, and Terry Coles became the fund's portfolio managers.

The Fund's Investment Approach

Effective May 1, 2017, the fund seeks long-term capital appreciation. To pursue its goal, the fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of U.S. companies that demonstrate attractive investment attributes and sustainable business practices, and have no material unresolvable environmental, social, and governance (ESG) issues. The fund invests principally in common stocks, focusing on companies with market capitalizations of $5 billion or more at the time of purchase. The fund may invest up to 20% of its assets in the stocks of foreign companies, including up to 10% in the stocks of companies in emerging market countries.

We use quantitative and qualitative fundamental analyses to identify attractively priced companies with good products, strong management, and strategic direction that have adopted, or are making progress towards, a sustainable business approach. We employ an investment process that combines investment themes with fundamental research and analysis to select stocks for the fund's portfolio.

Earnings and Economic Growth Supported Ongoing Rally

Over the first half of 2017, equities continued to build on gains achieved during the final months of 2016. Consecutive quarters of better-than-expected corporate earnings and encouraging economic developments in the United States, Europe, and China drove the Index to a series of new highs in January and February. While concerns about the new U.S. presidential administration's ability to implement its business-friendly policy proposals slowed the pace of the market's advance in the early spring, U.S. stocks quickly erased those losses and reached new all-time highs in May and June.

The information technology sector was the top-performing market sector in the Index for the reporting period. In contrast, the energy sector was undermined by weakening oil and gas prices, and health care stocks were hurt by pricing and competitive pressures.

Fund Strategies Produced Mixed Results

Over the first four months of the reporting period, the fund was managed using a quantitative security selection process. During that time, the valuation and earnings sustainability factors considered by the process proved effective, but behavioral factors weighed to a degree on relative performance. Security selections in the health care and telecommunication services sectors fared particularly well. However, this was somewhat offset by the fund's underperformance in the consumer discretionary and consumer staples sectors. Among individual stocks, *Waters Corp.*, *Agilent Technologies*, and *Tiffany & Co.* ranked among the fund's top holdings, but *Signet Jewelers* and *Campbell Soup* lagged market averages over the first four months of the year.

On May 1, 2017, the new portfolio management team began to transition the fund's portfolio to reflect the fund's changed investment objective and mandate. We reduced the number of holdings in the portfolio, focusing on companies that, in our analysis, are poised to deliver sustainable, long-term investment performance while managing positively the impacts of their operations on the environment and society. Although two months is an insufficient measure of long-term investment performance, it is worth noting that strong stock selections in the information technology sector were more than offset by disappointing contributions from the consumer staples, consumer discretionary, and industrials sectors. From a sector allocation perspective, an underweighted position in the energy sector proved favorable, as did lack of exposure to telecommunication services companies. Conversely, relatively light exposure to the health care and financials sectors and overweight positions in the consumer discretionary and information technology sectors dampened relative results. Top performers over the final two months of the reporting period included Cognizant Technology Solutions, McDonald's, and Citigroup, while laggards included TripAdvisor, Discovery Communications, and Walt Disney.

A Cautious Investment Posture

Despite optimism in some quarters about the prospects for the global economy and financial assets, we have continued to temper our outlook due to concerns about certain profound structural and deflationary issues, including challenging demographics, technological change, heavy debt burdens, and a political climate that threatens globalization and free trade. In this environment, we think a long-term perspective and a flexible, discerning approach are essential to long-term investment success. As of the reporting period's end, we have identified an ample number of opportunities in the information technology and consumer discretionary sectors, and the fund holds underweighted exposure to financial, energy, and health care stocks.

July 17, 2017

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.
The fund's consideration of ESG issues in the securities selection process may cause the fund to perform differently than funds that do not integrate consideration of ESG issues when selecting investments.
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 Sustainable U.S. Equity Portfolio, Inc. made available through insurance products may be similar to those of 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. The fund's returns reflect the absorption of certain fund expenses by The Dreyfus Corporation pursuant to an agreement in effect through May 1, 2018, at which time it may be extended, terminated, or modified.*

[2] *Source: Lipper Inc. — The S&P 500® Index is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. 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 Sustainable U.S. Equity Portfolio, Inc. from January 1, 2017 to June 30, 2017. 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, 2017

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.38	$ 5.66
Ending value (after expenses)	$ 1,076.60	$ 1,074.90

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, 2017

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.26	$ 5.51
Ending value (after expenses)	$ 1,020.58	$ 1,019.34

† *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 181/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS
June 30, 2017 (Unaudited)

Common Stocks - 99.8%	Shares	Value ($)
Banks - 3.0%		
Citigroup	106,443	**7,118,908**
Capital Goods - 1.6%		
Wolseley	63,600	**3,904,071**
Commercial & Professional Services - 5.5%		
Equifax	56,309	7,737,983
Nielsen Holdings	136,206	5,265,724
		13,003,707
Consumer Durables & Apparel - 4.1%		
Newell Brands	112,698	6,042,867
NIKE, Cl. B	63,827	3,765,793
		9,808,660
Consumer Services - 4.7%		
McDonald's	72,434	**11,093,991**
Energy - .5%		
National Oilwell Varco	39,305	**1,294,707**
Food & Staples Retailing - 2.1%		
Costco Wholesale	30,856	**4,934,800**
Food, Beverage & Tobacco - 2.2%		
Blue Buffalo Pet Products	228,642 [a]	**5,215,324**
Health Care Equipment & Services - 4.8%		
Cerner	90,382 [a]	6,007,692
Medtronic	60,962	5,410,377
		11,418,069
Household & Personal Products - 4.4%		
Procter & Gamble	119,094	**10,379,042**
Insurance - 4.8%		
Intact Financial	58,411	4,412,355
Principal Financial Group	110,817	7,100,045
		11,512,400
Media - 6.0%		
Discovery Communications, Cl. A	279,573 [a]	7,221,371
Walt Disney	65,787	6,989,869
		14,211,240
Pharmaceuticals, Biotechnology & Life Sciences - 5.8%		
Gilead Sciences	196,139	**13,882,718**
Real Estate - 1.0%		
Redwood Trust	141,687 [b]	**2,414,346**

Common Stocks - 99.8% (continued)	Shares	Value ($)
Retailing - 6.2%		
Dollar General	124,300	8,960,787
TripAdvisor	149,040 [a]	5,693,328
		14,654,115
Semiconductors & Semiconductor Equipment - 5.5%		
Applied Materials	203,879	8,422,241
Maxim Integrated Products	105,585	4,740,767
		13,163,008
Software & Services - 24.3%		
Accenture, Cl. A	27,451	3,395,140
Alphabet, Cl. A	10,762 [a]	10,005,216
Alphabet, Cl. C	7,300 [a]	6,633,729
Cognizant Technology Solutions, Cl. A	126,376	8,391,366
Facebook, Cl. A	26,000 [a]	3,925,480
Intuit	50,048	6,646,875
Microsoft	209,455	14,437,733
Western Union	235,679	4,489,685
		57,925,224
Technology Hardware & Equipment - 7.5%		
Apple	33,227	4,785,353
Samsung SDI, GDR	124,834 [c]	4,690,425
Stratasys	116,699 [a]	2,720,254
Trimble	159,535 [a]	5,690,613
		17,886,645
Transportation - 2.6%		
CH Robinson Worldwide	88,420	**6,072,686**
Utilities - 3.2%		
Eversource Energy	125,720	**7,632,461**
Total Common Stocks (cost $221,523,061)		**237,526,122**

Other Investment - .2%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Preferred Government Plus Money Market Fund (cost $496,582)	496,582 [d]	**496,582**
Total Investments (cost $222,019,643)	**100.0%**	**238,022,704**
Liabilities, Less Cash and Receivables	**.0%**	**(50,001)**
Net Assets	**100.0%**	**237,972,703**

GDR—Global Depository Receipt

[a] *Non-income producing security.*
[b] *Investment in real estate investment trust.*
[c] *Security exempt from registration pursuant to Rule 144A under the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At June 30, 2017, these securities were valued at $4,690,425 or 1.97% of net assets.*
[d] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited) †	Value (%)
Software & Services	24.3
Technology Hardware & Equipment	7.5
Retailing	6.2
Media	6.0
Pharmaceuticals, Biotechnology & Life Sciences	5.8
Semiconductors & Semiconductor Equipment	5.5
Commercial & Professional Services	5.5
Insurance	4.8
Health Care Equipment & Services	4.8
Consumer Services	4.7
Household & Personal Products	4.4
Consumer Durables & Apparel	4.1
Utilities	3.2
Banks	3.0
Transportation	2.6
Food, Beverage & Tobacco	2.2
Food & Staples Retailing	2.1
Capital Goods	1.6
Real Estate	1.0
Energy	.5
Money Market Investment	.2
	100.0

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

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2017 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments:		
Unaffiliated issuers	221,523,061	237,526,122
Affiliated issuers	496,582	496,582
Cash		27,304
Dividends receivable		36,257
Prepaid expenses		115,849
		238,202,114
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		120,887
Payable for shares of Common Stock redeemed		60,973
Accrued expenses		47,551
		229,411
Net Assets ($)		**237,972,703**
Composition of Net Assets ($):		
Paid-in capital		181,458,220
Accumulated undistributed investment income—net		1,292,055
Accumulated net realized gain (loss) on investments		39,218,698
Accumulated net unrealized appreciation (depreciation) on investments and foreign currency transactions		16,003,730
Net Assets ($)		**237,972,703**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	226,227,907	11,744,796
Shares Outstanding	6,018,456	315,722
Net Asset Value Per Share ($)	**37.59**	**37.20**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2017 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends (net of $4,206 foreign taxes withheld at source):	
Unaffiliated issuers	2,303,845
Affiliated issuers	3,924
Income from securities lending—Note 1(c)	4,236
Total Income	**2,312,005**
Expenses:	
Management fee—Note 3(a)	825,998
Professional fees	114,454
Directors' fees and expenses—Note 3(d)	40,228
Prospectus and shareholders' reports	30,111
Distribution fees—Note 3(b)	14,217
Custodian fees—Note 3(c)	9,843
Loan commitment fees—Note 2	1,312
Shareholder servicing costs—Note 3(c)	1,139
Miscellaneous	11,175
Total Expenses	**1,048,477**
Less—reduction in expenses due to undertaking—Note 3(a)	(29,272)
Less—reduction in fees due to earnings credits—Note 3(c)	(87)
Net Expenses	**1,019,118**
Investment Income—Net	**1,292,887**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments and foreign currency transactions	39,300,877
Net realized gain (loss) on forward foreign currency exchange contracts	12,242
Net Realized Gain (Loss)	**39,313,119**
Net unrealized appreciation (depreciation) on investments and foreign currency transactions	(23,112,827)
Net Realized and Unrealized Gain (Loss) on Investments	**16,200,292**
Net Increase in Net Assets Resulting from Operations	**17,493,179**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Operations ($):		
Investment income—net	1,292,887	2,741,722
Net realized gain (loss) on investments	39,313,119	15,872,537
Net unrealized appreciation (depreciation) on investments	(23,112,827)	3,697,883
Net Increase (Decrease) in Net Assets Resulting from Operations	**17,493,179**	**22,312,142**
Distributions to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,632,049)	(2,857,548)
Service Shares	(108,956)	(102,266)
Net realized gain on investments:		
Initial Shares	(15,130,712)	(21,711,406)
Service Shares	(772,217)	(979,667)
Total Distributions	**(18,643,934)**	**(25,650,887)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	3,994,889	6,741,612
Service Shares	870,617	1,365,965
Distributions reinvested:		
Initial Shares	17,762,761	24,568,954
Service Shares	881,173	1,081,933
Cost of shares redeemed:		
Initial Shares	(15,616,114)	(34,374,138)
Service Shares	(826,472)	(1,341,096)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**7,066,854**	**(1,956,770)**
Total Increase (Decrease) in Net Assets	**5,916,099**	**(5,295,515)**
Net Assets ($):		
Beginning of Period	232,056,604	237,352,119
End of Period	**237,972,703**	**232,056,604**
Undistributed investment income—net	1,292,055	2,740,173
Capital Share Transactions (Shares):		
Initial Shares		
Shares sold	104,567	187,407
Shares issued for distributions reinvested	481,245	711,731
Shares redeemed	(409,535)	(956,073)
Net Increase (Decrease) in Shares Outstanding	**176,277**	**(56,935)**
Service Shares		
Shares sold	23,024	38,332
Shares issued for distributions reinvested	24,109	31,617
Shares redeemed	(21,986)	(37,803)
Net Increase (Decrease) in Shares Outstanding	**25,147**	**32,146**

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, 2017 (Unaudited)	Year Ended December 31,				
		2016	2015	2014	2013	2012
Per Share Data ($):						
Net asset value, beginning of period	37.86	38.56	45.97	44.09	33.24	29.91
Investment Operations:						
Investment income—net[a]	.24	.44	.47	.45	.46	.44
Net realized and unrealized gain (loss) on investments	2.60	3.15	(1.54)	5.07	10.87	3.15
Total from Investment Operations	2.84	3.59	(1.07)	5.52	11.33	3.59
Distributions:						
Dividends from investment income—net	(.46)	(.50)	(.47)	(.48)	(.48)	(.26)
Dividends from net realized gain on investments	(2.65)	(3.79)	(5.87)	(3.16)	–	–
Total Distributions	(3.11)	(4.29)	(6.34)	(3.64)	(.48)	(.26)
Net asset value, end of period	37.59	37.86	38.56	45.97	44.09	33.24
Total Return (%)	7.66[b]	10.38	(3.20)	13.45	34.34	11.98
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	.88[c]	.86	.86	.84	.86	.85
Ratio of net expenses to average net assets	.85[c]	.86	.86	.84	.86	.85
Ratio of net investment income to average net assets	1.11[c]	1.21	1.14	1.02	1.19	1.34
Portfolio Turnover Rate	98.75[b]	60.67	59.57	45.05	38.81	48.84
Net Assets, end of period ($ x 1,000)	226,228	221,172	227,483	270,483	264,713	207,383

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

Service Shares	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016	2015	2014	2013	2012
Per Share Data ($):						
Net asset value, beginning of period	37.46	38.19	45.58	43.76	33.01	29.70
Investment Operations:						
Investment income—net[a]	.19	.34	.36	.33	.36	.36
Net realized and unrealized gain (loss) on investments	2.57	3.12	(1.52)	5.04	10.78	3.13
Total from Investment Operations	2.76	3.46	(1.16)	5.37	11.14	3.49
Distributions:						
Dividends from investment income—net	(.37)	(.40)	(.36)	(.39)	(.39)	(.18)
Dividends from net realized gain on investments	(2.65)	(3.79)	(5.87)	(3.16)	–	–
Total Distributions	(3.02)	(4.19)	(6.23)	(3.55)	(.39)	(.18)
Net asset value, end of period	37.20	37.46	38.19	45.58	43.76	33.01
Total Return (%)	7.49[b]	10.08	(3.41)	13.13	33.99	11.70
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	1.13[c]	1.11	1.11	1.09	1.11	1.10
Ratio of net expenses to average net assets	1.10[c]	1.11	1.11	1.09	1.11	1.10
Ratio of net investment income to average net assets	.86[c]	.96	.89	.76	.93	1.09
Portfolio Turnover Rate	98.75[b]	60.67	59.57	45.05	38.81	48.84
Net Assets, end of period ($ x 1,000)	11,745	10,884	9,869	10,632	8,767	6,552

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

NOTE 1—Significant Accounting Policies:

The Dreyfus Sustainable U.S. Equity Portfolio, 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 long-term capital appreciation. 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. Newton Investment Management (North America) Limited ("Newton"), a wholly-owned subsidiary of BNY Mellon and an affiliate of Dreyfus, serves as the fund's sub-investment adviser. Effective May 1, 2017, Newton replaced Mellon Capital Management as the sub-investment adviser to the fund.

The fund's Board of Directors (the "Board") approved, effective May 1, 2017, a change in the fund's name from "The Dreyfus Socially Responsible Growth Fund, Inc." to "The Dreyfus Sustainable U.S. Equity Portfolio, Inc.".

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 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 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 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.

Investments denominated in foreign currencies are translated to U.S. dollars at the prevailing rates of exchange.

Forward foreign currency exchange contracts ("forward contracts") are valued at the forward rate and are generally categorized within Level 2 of the fair value hierarchy.

The following is a summary of the inputs used as of June 30, 2017 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†	224,519,271	-	-	**224,519,271**
Equity Securities - Foreign Common Stocks†	13,006,851	-	-	**13,006,851**
Registered Investment Companies	496,582	-	-	**496,582**

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

At June 30, 2017, there were no transfers between levels of the fair value hierarchy.

(b) Foreign currency transactions: The fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in the market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized on securities transactions between trade and settlement date, and 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 exchange gains and losses arise from changes in the value of assets and liabilities other than investments resulting from changes in exchange rates. Foreign currency gains and losses on foreign currency transactions are also included with net realized and unrealized gain or loss on investments.

(c) 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, 2017, The Bank of New York Mellon earned $1,058 from lending portfolio securities, pursuant to the securities lending agreement.

(d) 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, 2017 were as follows:

Affiliated Investment Company	Value 12/31/2016 ($)	Purchases ($)	Sales ($)	Value 6/30/2017 ($)	Net Assets (%)
Dreyfus Institutional Preferred Government Plus Money Market Fund	1,675,223	16,100,198	17,278,839	496,582	.2
Dreyfus Institutional Preferred Money Market Fund, Hamilton Shares	3,269,178	28,421,947	31,691,125	-	-
Total	**4,944,401**	**44,522,145**	**48,969,964**	**496,582**	**.2**

(e) Dividends and distributions to shareholders: Dividends and distributions 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.

(f) 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, 2017, 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, 2017, the fund did not incur any interest or penalties.

Each tax year in the three-year period ended December 31, 2016 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, 2016 was as follows: ordinary income $2,959,814 and long-term capital gains $22,691,073. 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 an $810 million unsecured credit facility led by Citibank, N.A. and a $300 million unsecured credit facility provided by The Bank of New York Mellon (each, a "Facility"), each to be utilized primarily for temporary or emergency purposes, including the financing of redemptions. In connection therewith, the fund has agreed to pay its pro rata portion of commitment fees for each Facility. Interest is charged to the fund based on rates determined pursuant to the terms of the respective Facility at the time of borrowing. During the period ended June 30, 2017, the fund did not borrow under the Facilities.

NOTE 3—Management Fee and Other Transactions with Affiliates:

(a) Pursuant to the management agreement with Dreyfus, the management fee is computed at an annual rate of .60% of the value of the fund's average daily net assets and is payable monthly. Effective as of May 1, 2017, the Board approved a reduction in the management fee from an annual rate of .75% to an annual rate of .60% of the value of the fund's average daily net assets.

Dreyfus has contractually agreed, from May 1, 2017 through May 1, 2018, to waive receipt of its fees and/or assume the direct expenses of the fund so that the expenses of neither class (excluding Rule 12b-1 Distribution Plan fees, Shareholder Services Plan fees, taxes, interest expense, brokerage commission, commitment fees on borrowings and extraordinary expenses) exceed .70% of the value of the fund's average daily net assets. The reduction in expenses, pursuant to the undertaking, amounted to $29,272 during the period ended June 30, 2017.

Pursuant to the separate sub-investment advisory agreement between Dreyfus and Newton, Newton serves as the fund's sub-investment adviser responsible for the day-to-day management of the fund's portfolio. Dreyfus pays the sub-investment adviser a monthly fee at an annual percentage of the value of the fund's average daily net assets. Dreyfus has obtained an exemptive order from the SEC (the "Order"), upon which the fund may rely, to use a manager of managers approach that permits Dreyfus, subject to certain conditions and approval by the Board, to enter into and materially amend sub-investment advisory agreements with one or more sub-investment advisers who are either unaffiliated with Dreyfus or are wholly-owned subsidiaries (as defined under the Act) of Dreyfus' ultimate parent company, BNY Mellon, without obtaining shareholder approval. The Order also allows the fund to disclose the sub-investment advisory fee paid by Dreyfus to any unaffiliated sub-investment adviser in the aggregate with other unaffiliated sub-investment advisers in documents filed with the SEC and provided to shareholders. In addition, pursuant to the Order, it is not necessary to disclose the sub-investment advisory fee payable by Dreyfus separately to a sub-investment adviser that is a wholly-owned subsidiary of BNY Mellon in documents filed with the SEC and provided to shareholders; such fees are to be aggregated with fees payable to Dreyfus. Dreyfus has ultimate responsibility (subject to oversight by the Board) to supervise any sub-investment adviser and recommend the hiring, termination, and replacement of any sub-investment adviser to the Board.

(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, 2017, Service shares were charged $14,217 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, 2017, Initial shares were not charged pursuant to the Shareholder 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, 2017, the fund was charged $567 for transfer agency services and $71 for cash management services. These fees are included in Shareholder servicing costs in the Statement of Operations. Cash management fees were offset by earnings credits of $71.

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, 2017, the fund was charged $9,843 pursuant to the custody agreement. These fees were partially offset by earnings credits of $16.

During the period ended June 30, 2017, the fund was charged $5,598 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 $118,729 and Distribution Plan fees $2,435, custodian fees $4,500, Chief Compliance Officer fees $2,802 and transfer agency fees $294, which are offset against an expense reimbursement currently in effect in the amount of $7,873.

(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 and forward contracts, during the period ended June 30, 2017, amounted to $242,342,131 and $233,283,518, respectively.

Derivatives: A derivative is a financial instrument whose performance is derived from the performance of another asset. The fund enters into International Swaps and Derivatives Association, Inc. Master Agreements or similar agreements (collectively, "Master Agreements") with its over-the-counter ("OTC") derivative contract counterparties in order to, among other things, reduce its credit risk to counterparties. Master Agreements include provisions for general obligations, representations, collateral and events of default or termination. Under a Master Agreement, the fund may offset with the counterparty certain derivative financial instrument's payables and/or receivables with collateral held and/or posted and create one single net payment in the event of default or termination.

Each type of derivative instrument that was held by the fund during the period ended June 30, 2017 is discussed below.

Forward Foreign Currency Exchange Contracts: The fund enters into forward contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign portfolio holdings, to settle foreign currency transactions or as a part of its investment strategy. When executing forward contracts, the fund is obligated to buy or sell a foreign currency at a specified rate on a certain date in the future. With respect to sales of forward contracts, the fund incurs a loss if the value of the contract increases between the date the forward contract is opened and the date the forward contract is closed. The fund realizes a gain if the value of the contract decreases between those dates. With respect to purchases of forward contracts, the fund incurs a loss if the value of the contract decreases between the date the forward contract is opened and the date the forward contract is closed. The fund realizes a gain if the value of the contract increases between those dates. Any realized or unrealized gains or losses which occurred during the period are reflected in the Statement of Operations. The fund is exposed to foreign currency risk as a result of changes in value of underlying financial instruments. The fund is also exposed to credit risk associated with counterparty nonperformance on these forward contracts, which is generally limited to the unrealized gain on each open contract. This risk may be mitigated by Master Agreements, if any, between the fund and the counterparty and the posting of collateral, if any, by the counterparty to the fund to cover the fund's exposure to the counterparty. At June 30, 2017, there were no forward contracts outstanding.

The following summarizes the average market value of derivatives outstanding during the period ended June 30, 2017:

	Average Market Value ($)
Forward contracts	22,104

At June 30, 2017, accumulated net unrealized appreciation on investments was $16,003,061, consisting of $20,302,683 gross unrealized appreciation and $4,299,622 gross unrealized depreciation.

At June 30, 2017, 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).

PROXY RESULTS (Unaudited)

A special meeting of the fund's shareholders was held on March 9, 2017. The following proposals were approved by shareholders at the meeting on March 9, 2017:

	Shares		
	For	Against	Abstain
To approve a sub-investment advisory agreement between Dreyfus and Newton Investment Management (North America) Limited with respect to the fund.	3,206,302	1,078,073	700,773
To approve the implementation of a "manager of managers" arrangement whereby Dreyfus, under certain circumstances, would be able to hire and replace fund sub-advisers that are either unaffiliated with Dreyfus or are wholly-owned subsidiaries of Dreyfus' ultimate parent company, the Bank of New York Mellon Corporation ("BNY Mellon"), without obtaining shareholder approval.	3,128,706	1,170,288	686,154
To approve the implementation of a "manager of managers" arrangement whereby Dreyfus, under certain circumstances, and subject to the Securities and Exchange Commission's issuance of an exemptive order to the fund and Dreyfus, would be able to hire and replace fund sub-advisers that are either unaffiliated or affiliated with Dreyfus (whether or not wholly-owned subsidiaries of BNY Mellon) without obtaining shareholder approval.	3,229,265	1,164,504	591,379
To approve changing fundamental investment restrictions regarding issuer diversification.	3,122,216	1,097,322	765,610
To approve changing a fundamental investment restriction on margin, including changing it to a non-fundamental policy.	3,082,405	1,258,367	644,376

The meeting was adjourned with respect to consideration of the proposals listed below and reconvened on March 16, 2017. The following proposals were approved by shareholders at the meeting on March 16, 2017:

	Shares		
	For	Against	Abstain
To approve removing the fund's current fundamental social investment policy and related fundamental social considerations regarding its investment strategy.	3,535,965	1,452,035	541,765
To approve changing the fund's investment objective.	3,453,642	1,456,220	619,903
To approve changing the fund's investment objective from a fundamental policy to a non-fundamental policy.	3,280,816	1,547,201	701,748

The following proposals were not approved by shareholders:

	Shares		
	For	Against	Abstain
To approve changing a fundamental investment restriction regarding investing in commodities, real estate, oil and gas, including adopting a separate fundamental investment restriction regarding investing in physical commodities and certain derivative instruments.	2,888,941	2,082,189	558,635
To approve changing a fundamental investment restriction regarding industry concentration.	2,997,939	1,791,551	740,275
To approve removing a fundamental investment restriction regarding short sales and certain derivative transactions.	2,918,787	1,902,255	708,723
To approve changing a fundamental investment restriction regarding underwriting the securities of other issuers.	2,828,564	2,033,502	667,699
To approve changing a fundamental investment restriction regarding investing in companies for the purpose of exercising control to a non-fundamental policy.	2,893,841	1,854,229	781,695
To approve removing a fundamental investment restriction regarding companies with limited operations.	2,938,273	1,872,486	719,006
To approve removing fundamental investment restrictions regarding investments in securities where affiliated persons are involved.	2,845,819	2,069,725	614,221
To approve removing a fundamental investment restriction regarding warrants.	2,867,633	1,885,347	776,785

For More Information

The Dreyfus Sustainable U.S. Equity Portfolio, Inc.

200 Park Avenue
New York, NY 10166

Manager

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

Sub-Investment Adviser

Newton Investment Management
(North America) Limited
160 Queen Victoria Street
London, EC4V, 4LA, UK

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, D.C. (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.

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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.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Fund Performance

Performance summary

Fund vs. Indexes

Cumulative total returns, 12/31/16 to 6/30/17, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	4.01%
Series II Shares	3.88
Russell 1000 Value Index▼ (Broad Market Index)	4.66
Bloomberg Barclays U.S. Government/Credit Index▼ (Style-Specific Index)	2.66
Lipper VUF Mixed-Asset Target Allocation Growth Funds Index■ (Peer Group Index)	8.59

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 **Bloomberg Barclays U.S. Government/Credit Index** is a broad-based benchmark that includes investment grade, US dollar-denominated, fixed rate Treasuries and government-related and corporate securities.

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 6/30/17

Series I Shares	
Inception (12/30/94)	7.37%
10 Years	4.84
5 Years	8.45
1 Year	15.87
Series II Shares	
Inception (4/30/04)	9.15%
10 Years	4.57
5 Years	8.17
1 Year	15.52

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 1.16% and 1.41%, 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 1.17% and 1.42%, 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, 2019. See current prospectus for more information.

Schedule of Investments[a]

June 30, 2017
(Unaudited)

	Shares	Value
Common Stocks & Other Equity Interests-64.39%		
Aerospace & Defense-1.05%		
General Dynamics Corp.	2,673	$ 529,521
Apparel, Accessories & Luxury Goods-0.46%		
Michael Kors Holdings Ltd.[b]	6,374	231,058
Asset Management & Custody Banks-1.88%		
Northern Trust Corp.	4,030	391,756
State Street Corp.	6,205	556,775
		948,531
Automobile Manufacturers-0.99%		
General Motors Co.	14,285	498,975
Biotechnology-0.48%		
Amgen Inc.	1,400	241,122
Broadcasting-0.19%		
CBS Corp.-Class B	1,486	94,777
Building Products-0.99%		
Johnson Controls International PLC	11,467	497,209
Cable & Satellite-1.69%		
Charter Communications, Inc.-Class A[b]	987	332,471
Comcast Corp.-Class A	13,412	521,995
		854,466
Communications Equipment-1.91%		
Cisco Systems, Inc.	16,371	512,412
Juniper Networks, Inc.	16,193	451,461
		963,873
Construction Machinery & Heavy Trucks-0.69%		
Caterpillar Inc.	3,238	347,955
Data Processing & Outsourced Services-0.68%		
PayPal Holdings, Inc.[b]	6,437	345,474
Diversified Banks-9.24%		
Bank of America Corp.	58,814	1,426,828
Citigroup Inc.	27,263	1,823,349
JPMorgan Chase & Co.	15,421	1,409,479
		4,659,656
Diversified Metals & Mining-0.47%		
BHP Billiton Ltd. (Australia)	13,376	238,607
Drug Retail-1.99%		
CVS Health Corp.	4,766	383,472
Walgreens Boots Alliance, Inc.	7,919	620,137
		1,003,609
Electric Utilities-0.83%		
FirstEnergy Corp.	5,083	148,220
PG&E Corp.	4,109	272,715
		420,935

	Shares	Value
Fertilizers & Agricultural Chemicals-1.20%		
Agrium Inc. (Canada)	2,476	$ 224,053
Mosaic Co. (The)	16,663	380,417
		604,470
Health Care Distributors-0.72%		
Cardinal Health, Inc.	4,660	363,107
Health Care Equipment-1.72%		
Baxter International Inc.	6,691	405,073
Medtronic PLC	5,226	463,808
		868,881
Health Care Facilities-0.34%		
HealthSouth Corp.	3,525	170,592
Home Improvement Retail-0.57%		
Kingfisher PLC (United Kingdom)	73,632	288,377
Hotels, Resorts & Cruise Lines-1.28%		
Carnival Corp.	9,867	646,979
Industrial Conglomerates-0.68%		
General Electric Co.	12,694	342,865
Industrial Machinery-0.81%		
Ingersoll-Rand PLC	4,458	407,417
Insurance Brokers-2.18%		
Aon PLC	3,820	507,869
Marsh & McLennan Cos., Inc.	3,549	276,680
Willis Towers Watson PLC	2,163	314,630
		1,099,179
Integrated Oil & Gas-3.56%		
Exxon Mobil Corp.	3,192	257,690
Occidental Petroleum Corp.	9,315	557,689
Royal Dutch Shell PLC-Class A (United Kingdom)	23,926	635,548
TOTAL S.A. (France)	6,992	346,429
		1,797,356
Integrated Telecommunication Services-0.57%		
Orange S.A. (France)	4,839	77,083
Verizon Communications Inc.	4,698	209,812
		286,895
Internet Software & Services-0.89%		
eBay Inc.[b]	12,814	447,465
Investment Banking & Brokerage-3.60%		
Charles Schwab Corp. (The)	9,397	403,695
Goldman Sachs Group, Inc. (The)	1,807	400,973
Morgan Stanley	22,682	1,010,710
		1,815,378

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Shares	Value
IT Consulting & Other Services-0.91%		
Cognizant Technology Solutions Corp.-Class A	6,904	$ 458,426
Managed Health Care-0.61%		
Anthem, Inc.	1,637	307,969
Movies & Entertainment-0.56%		
Time Warner Inc.	2,818	282,955
Oil & Gas Equipment & Services-1.90%		
Baker Hughes, a GE Co., LLC	8,777	478,434
TechnipFMC PLC (United Kingdom)(b)	17,752	482,855
		961,289
Oil & Gas Exploration & Production-3.22%		
Apache Corp.	13,671	655,251
Canadian Natural Resources Ltd. (Canada)	16,157	466,203
Devon Energy Corp.	15,718	502,504
		1,623,958
Other Diversified Financial Services-0.44%		
Voya Financial, Inc.	6,057	223,443
Packaged Foods & Meats-0.65%		
Mondelez International, Inc.-Class A	7,629	329,497
Pharmaceuticals-3.69%		
Merck & Co., Inc.	7,718	494,647
Novartis AG (Switzerland)	5,106	426,374
Pfizer Inc.	17,029	572,004
Sanofi (France)	3,820	367,148
		1,860,173
Railroads-0.77%		
CSX Corp.	7,089	386,776
Regional Banks-5.60%		
BB&T Corp.	3,178	144,313
Citizens Financial Group, Inc.	22,187	791,632
Comerica Inc.	5,696	417,175
Fifth Third Bancorp	21,260	551,910
First Horizon National Corp.	14,772	257,328
PNC Financial Services Group, Inc. (The)	5,327	665,183
		2,827,541
Semiconductors-1.52%		
Intel Corp.	9,867	332,913
QUALCOMM Inc.	7,820	431,820
		764,733
Systems Software-1.63%		
Oracle Corp.	16,410	822,797
Tobacco-0.73%		
Philip Morris International Inc.	3,118	366,209

	Shares	Value
Wireless Telecommunication Services-0.50%		
Vodafone Group PLC-ADR (United Kingdom)	8,797	$ 252,738
Total Common Stocks & Other Equity Interests (Cost $26,912,273)		32,483,233
	Principal Amount	
Bonds & Notes-22.55%		
Aerospace & Defense-0.19%		
Northrop Grumman Corp., Sr. Unsec. Global Notes, 1.75%, 06/01/2018	$ 60,000	60,074
Precision Castparts Corp., Sr. Unsec. Global Notes, 1.25%, 01/15/2018	25,000	24,981
United Technologies Corp., Sr. Unsec. Global Notes, 4.05%, 05/04/2047	9,000	9,241
		94,296
Air Freight & Logistics-0.14%		
United Parcel Service, Inc., Sr. Unsec. Global Notes, 1.13%, 10/01/2017	65,000	64,978
Sr. Unsec. Notes, 3.40%, 11/15/2046	4,000	3,822
		68,800
Airlines-0.12%		
American Airlines Pass Through Trust, Series 2014-1, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.70%, 04/01/2028	21,446	22,116
United Airlines Pass Through Trust, Series 2014-2, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.75%, 09/03/2026	27,413	28,510
Virgin Australia Pass Through Trust (Australia), Series 2013-1, Class A, Sec. Gtd. Pass Through Ctfs., 5.00%, 04/23/2025(c)	10,726	11,101
		61,727
Apparel Retail-0.03%		
Ross Stores, Inc., Sr. Unsec. Notes, 3.38%, 09/15/2024	16,000	16,297
Application Software-0.53%		
Citrix Systems, Inc., Sr. Unsec. Conv. Bonds, 0.50%, 04/15/2019	117,000	140,766
Nuance Communications, Inc., Sr. Unsec. Conv. Bonds, 1.00%, 12/15/2022(d)	106,000	102,687
RealPage, Inc., Sr. Unsec. Conv. Notes, 1.50%, 11/15/2022(c)	24,000	26,235
		269,688
Asset Management & Custody Banks-0.67%		
Apollo Management Holdings L.P., Sr. Unsec. Gtd. Notes, 4.00%, 05/30/2024(c)	40,000	40,753
Blackstone Holdings Finance Co. LLC, Sr. Unsec. Gtd. Notes, 5.00%, 06/15/2044(c)	150,000	164,689
Brookfield Asset Management Inc. (Canada), Sr. Unsec. Notes, 4.00%, 01/15/2025	25,000	25,414

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Asset Management & Custody Banks–(continued)		
Carlyle Holdings Finance LLC, Sr. Unsec. Gtd. Notes, 3.88%, 02/01/2023[c]	$ 15,000	$ 15,429
KKR Group Finance Co. III LLC, Sr. Unsec. Gtd. Bonds, 5.13%, 06/01/2044[c]	85,000	89,987
		336,272
Automobile Manufacturers–0.48%		
Ford Motor Credit Co. LLC, Sr. Unsec. Global Notes, 4.13%, 08/04/2025	200,000	202,725
General Motors Co., Sr. Unsec. Global Notes, 6.60%, 04/01/2036	16,000	18,665
General Motors Financial Co., Inc., Sr. Unsec. Gtd. Global Notes, 5.25%, 03/01/2026	21,000	22,672
		244,062
Biotechnology–0.74%		
AbbVie Inc., Sr. Unsec. Global Notes, 4.50%, 05/14/2035	38,000	40,220
BioMarin Pharmaceutical Inc., Sr. Unsec. Sub. Conv. Notes, 1.50%, 10/15/2020	117,000	139,742
Celgene Corp., Sr. Unsec. Global Notes, 4.63%, 05/15/2044	100,000	105,515
Gilead Sciences, Inc., Sr. Unsec. Global Notes, 4.40%, 12/01/2021	25,000	26,997
Neurocrine Biosciences, Inc., Sr. Unsec. Conv. Notes, 2.25%, 05/15/2024[c]	62,000	61,729
		374,203
Brewers–0.44%		
Anheuser-Busch InBev Finance, Inc. (Belgium), Sr. Unsec. Gtd. Global Notes, 2.65%, 02/01/2021	30,000	30,426
3.30%, 02/01/2023	25,000	25,753
4.70%, 02/01/2036	45,000	49,490
4.90%, 02/01/2046	47,000	53,489
Heineken NV (Netherlands), Sr. Unsec. Notes, 3.50%, 01/29/2028[c]	35,000	35,698
Molson Coors Brewing Co., Sr. Unsec. Gtd. Global Notes, 1.45%, 07/15/2019	13,000	12,856
4.20%, 07/15/2046	16,000	15,874
		223,586
Broadcasting–0.87%		
Liberty Media Corp., Sr. Unsec. Conv. Deb., 2.25%, 10/05/2021[c][d]	55,000	59,469
Sr. Unsec. Conv. Notes, 1.00%, 01/30/2023[c]	20,000	23,262
1.38%, 10/15/2023	299,000	355,481
		438,212
Cable & Satellite–1.16%		
Charter Communications Operating, LLC/ Charter Communications Operating Capital Corp., Sr. Sec. Gtd. First Lien Global Notes, 4.46%, 07/23/2022	60,000	64,046

	Principal Amount	Value
Cable & Satellite–(continued)		
Comcast Corp., Sr. Unsec. Gtd. Global Notes, 5.70%, 05/15/2018	$ 150,000	$ 155,441
Cox Communications, Inc., Sr. Unsec. Notes, 8.38%, 03/01/2039[c]	150,000	199,135
DISH Network Corp., Sr. Unsec. Conv. Notes, 3.38%, 08/15/2026[c]	136,000	165,580
		584,202
Communications Equipment–0.80%		
Ciena Corp., Sr. Unsec. Conv. Bonds, 4.00%, 12/15/2020	75,000	106,359
Finisar Corp., Sr. Unsec. Conv. Notes, 0.50%, 12/15/2021[c][d]	39,000	38,171
Viavi Solutions Inc., Sr. Unsec. Conv. Deb., 0.63%, 08/15/2018[d]	167,000	185,266
Sr. Unsec. Conv. Notes, 1.00%, 03/01/2024[c]	68,000	71,400
		401,196
Construction & Engineering–0.04%		
Valmont Industries, Inc., Sr. Unsec. Gtd. Global Notes, 5.25%, 10/01/2054	22,000	21,275
Consumer Finance–0.04%		
American Express Co., Unsec. Sub. Global Notes, 3.63%, 12/05/2024	18,000	18,477
Data Processing & Outsourced Services–0.33%		
Blackhawk Network Holdings, Inc., Sr. Unsec. Conv. Notes, 1.50%, 01/15/2022[c]	119,000	133,280
Visa Inc., Sr. Unsec. Global Notes, 4.15%, 12/14/2035	30,000	32,644
		165,924
Diversified Banks–1.17%		
Bank of America Corp., Sr. Unsec. Medium-Term Global Notes, 3.50%, 04/19/2026	25,000	25,140
Sr. Unsec. Medium-Term Notes, 3.25%, 10/21/2027	10,000	9,653
Citigroup Inc., Unsec. Sub. Notes, 4.00%, 08/05/2024	60,000	61,790
4.75%, 05/18/2046	15,000	15,898
Commonwealth Bank of Australia (Australia), Sr. Unsec. Notes, 2.25%, 03/10/2020[c]	40,000	40,084
JPMorgan Chase & Co., Sr. Unsec. Global Notes, 3.20%, 06/15/2026	15,000	14,810
4.26%, 02/22/2048	10,000	10,493
Unsec. Sub. Global Notes, 4.25%, 10/01/2027	15,000	15,625
Series V, Jr. Unsec. Sub. Global Notes, 5.00%[e]	150,000	153,375
U.S. Bancorp, Series W, Unsec. Sub. Medium-Term Notes, 3.10%, 04/27/2026	10,000	9,912

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	Principal Amount	Value
Diversified Banks-(continued)		
Wells Fargo & Co., Sr. Unsec. Medium-Term Notes, 3.55%, 09/29/2025	$ 30,000	$ 30,568
Unsec. Sub. Medium-Term Notes, 4.10%, 06/03/2026	95,000	98,186
4.65%, 11/04/2044	100,000	105,634
		591,168
Diversified Capital Markets-0.50%		
Credit Suisse AG (Switzerland), Sr. Unsec. Conv. Medium-Term Notes, 0.05%, 06/24/2024[(c)]	260,000	254,670
Diversified Chemicals-0.09%		
Eastman Chemical Co., Sr. Unsec. Global Notes, 2.70%, 01/15/2020	43,000	43,589
Drug Retail-0.16%		
CVS Health Corp., Sr. Unsec. Global Bonds, 3.38%, 08/12/2024	20,000	20,329
Walgreens Boots Alliance Inc., Sr. Unsec. Global Notes, 3.30%, 11/18/2021	32,000	32,994
4.50%, 11/18/2034	24,000	25,100
		78,423
Electric Utilities-0.10%		
Duke Energy Corp., Sr. Unsec. Global Notes, 2.10%, 06/15/2018	40,000	40,160
NextEra Energy Capital Holdings Inc., Sr. Unsec. Gtd. Deb., 3.55%, 05/01/2027	11,000	11,187
		51,347
Electrical Components & Equipment-0.19%		
Eaton Corp., Sr. Unsec. Gtd. Global Notes, 1.50%, 11/02/2017	95,000	95,031
Environmental & Facilities Services-0.05%		
Waste Management, Inc., Sr. Unsec. Gtd. Global Notes, 3.90%, 03/01/2035	25,000	25,882
Fertilizers & Agricultural Chemicals-0.03%		
Monsanto Co., Sr. Unsec. Global Notes, 2.13%, 07/15/2019	15,000	15,040
Gas Utilities-0.02%		
NiSource Finance Corp., Sr. Unsec. Gtd. Global Notes, 4.38%, 05/15/2047	9,000	9,412
General Merchandise Stores-0.04%		
Dollar General Corp., Sr. Unsec. Global Notes, 3.25%, 04/15/2023	20,000	20,387
Health Care Equipment-1.19%		
Becton, Dickinson and Co., Sr. Unsec. Global Notes, 4.88%, 05/15/2044	170,000	177,230
Sr. Unsec. Notes, 2.68%, 12/15/2019	15,000	15,193
DexCom, Inc., Sr. Unsec. Conv. Notes, 0.75%, 05/15/2022[(c)]	46,000	47,064
Health Care Equipment-(continued)		
Medtronic, Inc., Sr. Unsec. Gtd. Global Notes, 3.15%, 03/15/2022	$ 58,000	$ 60,092
4.38%, 03/15/2035	20,000	21,967
NuVasive, Inc., Sr. Unsec. Conv. Bonds, 2.25%, 03/15/2021	80,000	110,800
Wright Medical Group N.V., Sr. Unsec. Conv. Bonds, 2.25%, 11/15/2021	39,000	55,282
Wright Medical Group, Inc., Sr. Unsec. Conv. Bonds, 2.00%, 02/15/2020	99,000	110,509
		598,137
Health Care Facilities-0.34%		
Brookdale Senior Living Inc., Sr. Unsec. Conv. Notes, 2.75%, 06/15/2018	173,000	172,243
Health Care REIT's-0.05%		
HCP, Inc., Sr. Unsec. Global Notes, 3.88%, 08/15/2024	25,000	25,482
Health Care Services-0.17%		
Express Scripts Holding Co., Sr. Unsec. Gtd. Global Notes, 2.25%, 06/15/2019	30,000	30,108
Laboratory Corp. of America Holdings, Sr. Unsec. Notes, 3.20%, 02/01/2022	33,000	33,614
4.70%, 02/01/2045	22,000	22,949
		86,671
Home Improvement Retail-0.05%		
Home Depot, Inc. (The), Sr. Unsec. Global Notes, 2.00%, 04/01/2021	27,000	26,967
Hotel and Resort REIT's-0.02%		
Hospitality Properties Trust, Sr. Unsec. Notes, 4.50%, 06/15/2023	10,000	10,470
Insurance Brokers-0.01%		
Willis North America, Inc., Sr. Unsec. Gtd. Global Notes, 3.60%, 05/15/2024	5,000	5,059
Integrated Oil & Gas-0.34%		
Cenovus Energy Inc. (Canada), Sr. Unsec. Notes, 5.25%, 06/15/2037[(c)]	25,000	23,562
Chevron Corp., Sr. Unsec. Global Notes, 1.37%, 03/02/2018	77,000	77,364
Occidental Petroleum Corp., Sr. Unsec. Global Notes, 3.40%, 04/15/2026	15,000	15,141
Shell International Finance B.V. (Netherlands), Sr. Unsec. Gtd. Global Notes, 4.00%, 05/10/2046	37,000	36,609
Suncor Energy Inc. (Canada), Sr. Unsec. Notes, 3.60%, 12/01/2024	18,000	18,394
		171,070
Integrated Telecommunication Services-1.15%		
AT&T Inc., Sr. Unsec. Global Notes, 3.00%, 06/30/2022	28,000	28,047
3.40%, 05/15/2025	15,000	14,770
4.50%, 05/15/2035	25,000	24,765
5.15%, 03/15/2042	150,000	154,948
4.80%, 06/15/2044	40,000	39,657

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Integrated Telecommunication Services–(continued)		
Telefónica Emisiones, S.A.U. (Spain), Sr. Unsec. Gtd. Global Notes, 7.05%, 06/20/2036	$ 150,000	$ 198,130
Verizon Communications Inc., Sr. Unsec. Global Notes, 4.40%, 11/01/2034	120,000	119,456
		579,773
Internet & Direct Marketing Retail–0.66%		
Amazon.com, Inc., Sr. Unsec. Global Notes, 4.80%, 12/05/2034	9,000	10,385
Ctrip.com International, Ltd. (China), Sr. Unsec. Conv. Notes, 1.25%, 09/15/2019[c][d]	113,000	122,393
Liberty Expedia Holdings, Inc., Sr. Unsec. Conv. Deb., 1.00%, 07/05/2022[c][d]	53,000	56,611
Liberty Interactive LLC, Sr. Unsec. Conv. Deb., 1.75%, 10/05/2023[c][d]	85,000	97,590
QVC, Inc., Sr. Sec. Gtd. First Lien Global Notes, 5.45%, 08/15/2034	50,000	47,659
		334,638
Internet Software & Services–0.17%		
eBay Inc., Sr. Unsec. Global Notes, 2.50%, 03/09/2018	65,000	65,428
WebMD Health Corp., Unsec. Conv. Bonds, 2.63%, 06/15/2023	23,000	22,587
		88,015
Investment Banking & Brokerage–1.19%		
Goldman Sachs Group, Inc. (The), Unsec. Sub. Notes, 4.25%, 10/21/2025	27,000	27,846
GS Finance Corp., Series 0001, Sr. Unsec. Conv. Medium-Term Notes, 0.25%, 07/08/2024	198,000	196,242
Jefferies Group LLC, Sr. Unsec. Conv. Deb., 3.88%, 11/01/2017[d]	161,000	162,208
Morgan Stanley, Sr. Unsec. Medium-Term Global Notes, 2.38%, 07/23/2019	175,000	176,398
4.00%, 07/23/2025	35,000	36,605
		599,299
Life & Health Insurance–0.50%		
Athene Global Funding, Sec. Notes, 2.88%, 10/23/2018[c]	31,000	31,132
4.00%, 01/25/2022[c]	45,000	46,661
Jackson National Life Global Funding, Sr. Sec. Notes, 2.10%, 10/25/2021[c]	10,000	9,808
3.25%, 01/30/2024[c]	15,000	15,164
Nationwide Financial Services Inc., Sr. Unsec. Notes, 5.30%, 11/18/2044[c]	50,000	57,053
Prudential Financial, Inc., Series D, Sr. Unsec. Medium-Term Notes, 6.00%, 12/01/2017	55,000	55,976
Reliance Standard Life Global Funding II, Sr. Sec. First Lien Notes, 3.05%, 01/20/2021[c]	20,000	20,209

	Principal Amount	Value
Life & Health Insurance–(continued)		
Teachers Insurance and Annuity Association of America, Unsec. Sub. Notes, 4.27%, 05/15/2047[c]	$ 17,000	$ 17,371
		253,374
Movies & Entertainment–0.14%		
Live Nation Entertainment, Inc., Sr. Unsec. Conv. Bonds, 2.50%, 05/15/2019	61,000	69,845
Multi-Line Insurance–0.50%		
American Financial Group, Inc., Sr. Unsec. Notes, 9.88%, 06/15/2019	150,000	171,450
4.50%, 06/15/2047	20,000	20,408
American International Group, Inc., Sr. Unsec. Global Notes, 2.30%, 07/16/2019	20,000	20,122
4.38%, 01/15/2055	40,000	38,599
		250,579
Office REIT's–0.30%		
Highwoods Realty L.P., Sr. Unsec. Notes, 3.20%, 06/15/2021	150,000	151,477
Oil & Gas Drilling–0.17%		
Ensco Jersey Finance Ltd., Sr. Unsec. Gtd. Conv. Notes, 3.00%, 01/31/2024[c]	73,000	56,109
Nabors Industries Inc., Sr. Unsec. Gtd. Conv. Notes, 0.75%, 01/15/2024[c]	40,000	31,925
		88,034
Oil & Gas Equipment & Services–0.30%		
Helix Energy Solutions Group, Inc., Sr. Unsec. Conv. Notes, 4.25%, 05/01/2022	40,000	37,525
Weatherford International Ltd., Sr. Unsec. Gtd. Conv. Notes, 5.88%, 07/01/2021	114,000	115,639
		153,164
Oil & Gas Exploration & Production–0.30%		
Anadarko Petroleum Corp., Sr. Unsec. Notes, 6.60%, 03/15/2046	18,000	22,243
Chesapeake Energy Corp., Sr. Unsec. Gtd. Conv. Notes, 5.50%, 09/15/2026[c]	37,000	34,780
ConocoPhillips Co., Sr. Unsec. Gtd. Global Notes, 2.88%, 11/15/2021	46,000	46,864
4.15%, 11/15/2034	49,000	49,774
		153,661
Oil & Gas Storage & Transportation–0.74%		
Enable Midstream Partners, LP, Sr. Unsec. Global Notes, 2.40%, 05/15/2019	200,000	197,876
Enbridge Inc. (Canada), Sr. Unsec. Global Notes, 5.50%, 12/01/2046	16,000	18,289
Energy Transfer, LP, Sr. Unsec. Notes, 4.90%, 03/15/2035	19,000	18,649
Enterprise Products Operating LLC, Sr. Unsec. Gtd. Notes, 2.55%, 10/15/2019	20,000	20,274

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	Principal Amount	Value
Oil & Gas Storage & Transportation-(continued)		
Kinder Morgan Inc., Sr. Unsec. Gtd. Notes, 5.30%, 12/01/2034	$ 23,000	$ 23,829
MPLX LP,		
Sr. Unsec. Global Bonds, 4.50%, 07/15/2023	65,000	69,205
Sr. Unsec. Global Notes, 5.50%, 02/15/2023	25,000	25,828
		373,950
Other Diversified Financial Services-0.10%		
ERAC USA Finance LLC, Sr. Unsec. Gtd. Notes, 2.35%, 10/15/2019[c]	50,000	50,076
Packaged Foods & Meats-0.10%		
General Mills, Inc., Sr. Unsec. Global Notes, 2.20%, 10/21/2019	45,000	45,300
Mead Johnson Nutrition Co. (United Kingdom), Sr. Unsec. Gtd. Global Notes, 4.13%, 11/15/2025	3,000	3,231
		48,531
Pharmaceuticals-1.12%		
Allergan Funding SCS, Sr. Unsec. Gtd. Global Notes, 4.85%, 06/15/2044	150,000	164,660
Bayer US Finance LLC (Germany), Sr. Unsec. Gtd. Notes, 3.00%, 10/08/2021[c]	200,000	204,629
Jazz Investments I Ltd., Sr. Unsec. Gtd. Conv. Bonds, 1.88%, 08/15/2021	76,000	83,410
Medicines Co. (The), Sr. Unsec. Conv. Bonds, 2.75%, 07/15/2023	37,000	38,896
Mylan N.V., Sr. Unsec. Gtd. Global Notes, 3.15%, 06/15/2021	17,000	17,259
5.25%, 06/15/2046	25,000	27,491
Pacira Pharmaceuticals, Inc., Sr. Unsec. Conv. Notes, 2.38%, 04/01/2022[c]	13,000	13,845
Teva Pharmaceutical Finance Netherlands III B.V. (Israel), Sr. Unsec. Gtd. Global Notes, 2.80%, 07/21/2023	14,000	13,639
		563,829
Property & Casualty Insurance-0.41%		
Allstate Corp. (The), Sr. Unsec. Bonds, 3.28%, 12/15/2026	10,000	10,183
Liberty Mutual Group Inc., Sr. Unsec. Gtd. Bonds, 4.85%, 08/01/2044[c]	115,000	124,064
Old Republic International Corp., Sr. Unsec. Conv. Notes, 3.75%, 03/15/2018	59,000	74,967
		209,214
Railroads-0.05%		
Union Pacific Corp., Sr. Unsec. Notes, 4.15%, 01/15/2045	25,000	26,278
Regional Banks-0.03%		
Citizens Financial Group, Inc., Sr. Unsec. Global Notes, 2.38%, 07/28/2021	15,000	14,784
Renewable Electricity-0.30%		
Oglethorpe Power Corp., Sr. Sec. First Mortgage Bonds, 4.55%, 06/01/2044	150,000	149,595

	Principal Amount	Value
Retail REIT's-0.30%		
Realty Income Corp., Sr. Unsec. Notes, 2.00%, 01/31/2018	$ 150,000	$ 150,107
Semiconductors-0.91%		
Broadcom Corp./Broadcom Cayman Finance Ltd., Sr. Unsec. Gtd. Notes, 3.63%, 01/15/2024[c]	50,000	51,359
Intel Corp., Sr. Unsec. Global Notes, 1.35%, 12/15/2017	30,000	30,005
4.10%, 05/11/2047	5,000	5,196
Microchip Technology Inc., Sr. Unsec. Sub. Conv. Notes, 1.63%, 02/15/2027[c]	111,000	117,244
Micron Technology, Inc., Series G, Sr. Unsec. Conv. Global Bonds, 3.00%, 11/15/2028[d]	117,000	132,210
ON Semiconductor Corp., Sr. Unsec. Gtd. Conv. Bonds, 1.00%, 12/01/2020	90,000	93,825
Silicon Laboratories Inc., Sr. Unsec. Conv. Notes, 1.38%, 03/01/2022[c]	21,000	21,814
Texas Instruments Inc., Sr. Unsec. Notes, 2.63%, 05/15/2024	5,000	4,984
		456,637
Specialized Finance-0.46%		
Air Lease Corp., Sr. Unsec. Global Notes, 2.63%, 09/04/2018	45,000	45,346
3.00%, 09/15/2023	24,000	23,888
4.25%, 09/15/2024	35,000	36,802
Aviation Capital Group Corp., Sr. Unsec. Notes, 2.88%, 09/17/2018[c]	35,000	35,339
2.88%, 01/20/2022[c]	49,000	48,817
4.88%, 10/01/2025[c]	40,000	43,471
		233,663
Specialized REIT's-0.53%		
Crown Castle Towers LLC, Sr. Sec. Gtd. First Lien Notes, 4.88%, 08/15/2020[c]	178,000	189,956
EPR Properties, Sr. Unsec. Gtd. Global Notes, 4.75%, 12/15/2026	75,000	77,154
		267,110
Specialty Chemicals-0.01%		
Sherwin-Williams Co. (The), Sr. Unsec. Global Notes, 4.50%, 06/01/2047	3,000	3,164
Systems Software-0.43%		
FireEye, Inc.,		
Series A, Sr. Unsec. Conv. Bonds, 1.00%, 06/01/2020[d]	51,000	48,322
Series B, Sr. Unsec. Conv. Bonds, 1.63%, 06/01/2022[d]	51,000	46,697
Microsoft Corp., Sr. Unsec. Global Notes, 3.50%, 02/12/2035	37,000	37,352
Oracle Corp., Sr. Unsec. Global Notes, 1.90%, 09/15/2021	50,000	49,554
4.30%, 07/08/2034	30,000	32,564
		214,489

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	Principal Amount	Value
Technology Distributors-0.06%		
Avnet, Inc., Sr. Unsec. Global Notes, 4.63%, 04/15/2026	$ 30,000	$ 31,205
Technology Hardware, Storage & Peripherals-0.50%		
Apple Inc., Sr. Unsec. Global Notes, 2.15%, 02/09/2022	39,000	38,774
3.35%, 02/09/2027	10,000	10,239
Dell International LLC/ EMC Corp., Sr. Sec. Gtd. First Lien Notes, 5.45%, 06/15/2023[c]	26,000	28,323
SanDisk Corp., Sr. Unsec. Gtd. Conv. Bonds, 0.50%, 10/15/2020	140,000	135,461
Seagate HDD Cayman, Sr. Unsec. Gtd. Global Bonds, 5.75%, 12/01/2034	37,000	37,232
		250,029
Tobacco-0.02%		
Philip Morris International Inc., Sr. Unsec. Global Bonds, 1.25%, 08/11/2017	11,000	11,000
Total Bonds & Notes (Cost $11,028,714)		11,374,785
U.S. Treasury Securities-7.39%		
U.S. Treasury Notes-7.07%		
1.25%, 01/31/2019	710,000	708,863
1.25%, 05/31/2019	2,403,000	2,397,509
1.50%, 06/15/2020	235,000	234,670
1.75%, 05/31/2022	19,200	19,087
2.00%, 05/31/2024	181,000	179,519
U.S. Treasury Notes-(continued)		
2.38%, 05/15/2027	$ 27,200	$ 27,379
		3,567,027
U.S. Treasury Bonds-0.32%		
4.50%, 02/15/2036	75,000	96,954
3.00%, 02/15/2047	64,800	66,974
		163,928
Total U.S. Treasury Securities (Cost $3,730,788)		3,730,955
	Shares	
Preferred Stocks-0.20%		
Asset Management & Custody Banks-0.20%		
AMG Capital Trust II, $2.58 Jr. Unsec. Gtd. Sub. Conv. Pfd. (Cost $106,269)	1,700	100,938
Money Market Funds-3.95%		
Government & Agency Portfolio-Institutional Class, 0.89%[f]	1,196,355	1,196,355
Treasury Portfolio-Institutional Class, 0.85%[f]	797,570	797,570
Total Money Market Funds (Cost $1,993,925)		1,993,925
TOTAL INVESTMENTS-98.48% (Cost $43,771,969)		49,683,836
OTHER ASSETS LESS LIABILITIES-1.52%		765,011
NET ASSETS-100.00%		$50,448,847

Investment Abbreviations:

ADR - American Depositary Receipt
Conv. - Convertible
Ctfs. - Certificates
Deb. - Debentures
Gtd. - Guaranteed
Jr. - Junior
Pfd. - Preferred
REIT - Real Estate Investment Trust
Sec. - Secured
Sr. - Senior
Sub. - Subordinated
Unsec. - Unsecured

Notes to Schedule of Investments:

(a) Industry and/or sector classifications used in this report are generally according to the Global Industry Classification Standard, which was developed by and is the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.
(b) Non-income producing security.
(c) Security purchased or received in a transaction exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"). The security may be resold pursuant to an exemption from registration under the 1933 Act, typically to qualified institutional buyers. The aggregate value of these securities at June 30, 2017 was $3,027,041, which represented 6.00% of the Fund's Net Assets.
(d) Security has an irrevocable call by the issuer or mandatory put by the holder. Maturity date reflects such call or put.
(e) Perpetual bond with no specified maturity date.
(f) The money market fund and the Fund are affiliated by having the same investment adviser. The rate shown is the 7-day SEC standardized yield as of June 30, 2017.

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Portfolio Composition

By sector, based on Net Assets
as of June 30, 2017

Financials	28.3%
Information Technology	11.3
Health Care	11.1
Energy	10.5
Consumer Discretionary	9.2
U.S. Treasury Securities	7.4
Industrials	6.2
Consumer Staples	4.1
Telecommunication Services	2.2
Materials	1.8
Utilities	1.2
Real Estate	1.2
Money Market Funds Plus Other Assets Less Liabilities	5.5

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Statement of Assets and Liabilities

June 30, 2017
(Unaudited)

Assets:	
Investments, at value (Cost $41,778,044)	$47,689,911
Investments in affiliated money market funds, at value and cost	1,993,925
Total investments, at value (Cost $43,771,969)	49,683,836
Foreign currencies, at value (Cost $45,956)	45,834
Receivable for:	
Investments sold	1,186,391
Fund shares sold	13,480
Dividends and interest	148,298
Investment for trustee deferred compensation and retirement plans	69,720
Unrealized appreciation on forward foreign currency contracts outstanding	230
Total assets	51,147,789
Liabilities:	
Payable for:	
Investments purchased	319,079
Fund shares reacquired	167,630
Amount due custodian	65,236
Accrued fees to affiliates	20,270
Accrued trustees' and officers' fees and benefits	4,632
Accrued other operating expenses	33,744
Trustee deferred compensation and retirement plans	74,153
Unrealized depreciation on forward foreign currency contracts outstanding	14,198
Total liabilities	698,942
Net assets applicable to shares outstanding	$50,448,847
Net assets consist of:	
Shares of beneficial interest	$44,054,933
Undistributed net investment income	712,493
Undistributed net realized gain (loss)	(216,902)
Net unrealized appreciation	5,898,323
	$50,448,847
Net Assets:	
Series I	$48,970,262
Series II	$ 1,478,585
Shares outstanding, no par value, with an unlimited number of shares authorized:	
Series I	3,932,344
Series II	120,171
Series I:	
Net asset value per share	$ 12.45
Series II:	
Net asset value per share	$ 12.30

Statement of Operations

For the six months ended June 30, 2017
(Unaudited)

Investment income:	
Dividends (net of foreign withholding taxes of $14,083)	$ 377,044
Dividends from affiliated money market funds	7,109
Interest	193,961
Total investment income	578,114
Expenses:	
Advisory fees	152,344
Administrative services fees	62,322
Custodian fees	8,788
Distribution fees – Series II	1,829
Transfer agent fees	9,917
Trustees' and officers' fees and benefits	11,243
Reports to shareholders	8,105
Professional services fees	26,701
Other	5,771
Total expenses	287,020
Less: Fees waived	(1,354)
Net expenses	285,666
Net investment income	292,448
Realized and unrealized gain (loss) from:	
Net realized gain (loss) from:	
Investment securities	1,293,976
Foreign currencies	2,281
Forward foreign currency contracts	(67,375)
Futures contracts	(25,150)
	1,203,732
Change in net unrealized appreciation (depreciation) of:	
Investment securities	603,628
Foreign currencies	574
Forward foreign currency contracts	(67,463)
	536,739
Net realized and unrealized gain	1,740,471
Net increase in net assets resulting from operations	$2,032,919

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, 2017 and the year ended December 31, 2016
(Unaudited)

	June 30, 2017	December 31, 2016
Operations:		
Net investment income	$ 292,448	$ 625,840
Net realized gain (loss)	1,203,732	(1,186,418)
Change in net unrealized appreciation	536,739	5,466,222
Net increase in net assets resulting from operations	2,032,919	4,905,644
Distributions to shareholders from net investment income:		
Series I	–	(906,262)
Series II	–	(22,509)
Total distributions from net investment income	–	(928,771)
Distributions to shareholders from net realized gains:		
Series I	–	(1,460,269)
Series II	–	(42,846)
Total distributions from net realized gains	–	(1,503,115)
Share transactions-net:		
Series I	(3,188,363)	(4,579,259)
Series II	(40,788)	(110,167)
Net increase (decrease) in net assets resulting from share transactions	(3,229,151)	(4,689,426)
Net increase (decrease) in net assets	(1,196,232)	(2,215,668)
Net assets:		
Beginning of period	51,645,079	53,860,747
End of period (includes undistributed net investment income of $712,493 and $420,045, respectively)	$50,448,847	$51,645,079

Notes to Financial Statements

June 30, 2017
(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 Fund is an investment company and accordingly follows the investment company accounting and reporting guidance in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 946, *Financial Services – Investment Companies*.

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 the 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. and separate sub-advisory agreements with Invesco PowerShares Capital Management LLC and Invesco Asset Management (India) Private Limited (collectively, the "Affiliated Sub-Advisers") the Adviser, not the Fund, will 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, 2018, 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, 2018. During its term, the fee waiver agreement cannot be terminated or amended to increase expense limits or reduce the advisory fee waiver 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, 2019, 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, 2017, the Adviser waived advisory fees of $1,354.

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 fees paid to insurance companies that have agreed to provide certain administrative services to the Fund. These administrative services provided by the insurance companies may include, among other things: maintenance of master accounts with the Fund; tracking, recording and transmitting net purchase and redemption orders for Fund shares; maintaining and preserving records related to the purchase, redemption and other account activity of variable product owners; distributing copies of Fund documents such as prospectuses, proxy materials and periodic reports, to variable product owners, and responding to inquiries from variable product owners about the Fund. Pursuant to such agreement, for the six months ended June 30, 2017, Invesco was paid $24,795 for accounting and fund administrative services and was reimbursed $37,527 for fees paid to 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, 2017, 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, 2017, expenses incurred under the Plan are detailed in the Statement of Operations as *Distribution fees*.

For the six months ended June 30, 2017, the Fund incurred $74 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, 2017. 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
Common Stocks & Other Equity Interests	$30,392,044	$ 2,091,189	$–	$32,483,233
Bonds and Notes	–	11,374,785	–	11,374,785
U.S. Treasury Securities	–	3,730,955	–	3,730,955
Preferred Stocks	–	100,938	–	100,938
Money Market Funds	1,993,925	–	–	1,993,925
	32,385,969	17,297,867	–	49,683,836
Forward Foreign Currency Contracts*	–	(13,968)	–	(13,968)
Total Investments	$32,385,969	$17,283,899	$–	$49,669,868

* Unrealized appreciation (depreciation).

NOTE 4—Derivative Investments

The Fund may enter into an International Swaps and Derivatives Association Master Agreement ("ISDA Master Agreement") under which a Fund may trade OTC derivatives. An OTC transaction entered into under an ISDA Master Agreement typically involves a collateral posting arrangement, payment netting provisions and close-out netting provisions. These netting provisions allow for reduction of credit risk through netting of contractual obligations. The enforceability of the netting provisions of the ISDA Master Agreement depends on the governing law of the ISDA Master Agreement, among other factors.

For financial reporting purposes, the Fund does not offset OTC derivative assets or liabilities that are subject to ISDA Master Agreements in the Statement of Assets and Liabilities.

Open Forward Foreign Currency Contracts

Settlement Date	Counterparty	Contract to Deliver	Contract to Receive	Notional Value	Unrealized Appreciation (Depreciation)
07/28/17	Bank of New York Mellon (The)	AUD 115,359	USD 87,788	$ 88,637	$ (849)
07/28/17	Bank of New York Mellon (The)	CAD 257,520	USD 197,518	198,688	(1,170)
07/28/17	Bank of New York Mellon (The)	CHF 159,795	USD 166,626	166,955	(329)
07/28/17	Bank of New York Mellon (The)	EUR 269,558	USD 306,790	308,360	(1,570)
07/28/17	Bank of New York Mellon (The)	GBP 345,763	USD 447,673	450,775	(3,102)
07/28/17	State Street Bank and Trust Co.	AUD 115,355	USD 87,824	88,634	(810)
07/28/17	State Street Bank and Trust Co.	CAD 201,303	USD 154,318	155,314	(996)
07/28/17	State Street Bank and Trust Co.	CHF 159,648	USD 166,491	166,802	(311)
07/28/17	State Street Bank and Trust Co.	EUR 269,690	USD 306,784	308,511	(1,727)
07/28/17	State Street Bank and Trust Co.	GBP 345,645	USD 447,288	450,622	(3,334)
07/28/17	State Street Bank and Trust Co.	USD 5,476	AUD 7,145	5,490	14
07/28/17	State Street Bank and Trust Co.	USD 11,780	CAD 15,347	11,841	61
07/28/17	State Street Bank and Trust Co.	USD 10,936	CHF 10,473	10,943	7
07/28/17	State Street Bank and Trust Co.	USD 18,288	EUR 16,039	18,348	60
07/28/17	State Street Bank and Trust Co.	USD 16,131	GBP 12,441	16,219	88
Total Forward Foreign Currency Contracts — Currency Risk					$(13,968)

Currency Abbreviations:

AUD – Australian Dollar
CAD – Canadian Dollar
CHF – Swiss Franc
EUR – Euro
GBP – British Pound Sterling
USD – U.S. Dollar

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, 2017:

Derivative Assets	Value Currency Risk
Unrealized appreciation on forward foreign currency contracts outstanding	$230
Derivatives not subject to master netting agreements	–
Total Derivative Assets subject to master netting agreements	$230

Derivative Liabilities	Value Currency Risk
Unrealized depreciation on forward foreign currency contracts outstanding	$(14,198)
Derivatives not subject to master netting agreements	–
Total Derivative Liabilities subject to master netting agreements	$(14,198)

Offsetting Assets and Liabilities

The table below reflects the Fund's exposure to Counterparties subject to either an ISDA Master Agreement or other agreement for OTC derivative transactions as of June 30, 2017.

	Financial Derivative Assets	Financial Derivative Liabilities		Collateral (Received)/Pledged		
Counterparty	Forward Foreign Currency Contracts	Forward Foreign Currency Contracts	Net Value of Derivatives	Non-Cash	Cash	Net Amount
Bank of New York Mellon (The)	$ –	$ (7,020)	$ (7,020)	$–	$–	$ (7,020)
State Street Bank and Trust Co.	230	(7,178)	(6,948)	–	–	(6,948)
Total	$230	$(14,198)	$(13,968)	$–	$–	$(13,968)

Effect of Derivative Investments for the six months ended June 30, 2017

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		
	Currency Risk	Equity Risk	Total
Realized Gain (Loss):			
Forward foreign currency contracts	$ (67,375)	$ –	$ (67,375)
Futures contracts	–	(25,150)	(25,150)
Change in Net Unrealized Appreciation (Depreciation):			
Forward foreign currency contracts	(67,463)	–	(67,463)
Total	$(134,838)	$(25,150)	$(159,988)

The table below summarizes the six months average notional value of forward foreign currency contracts and the two days average notional value of futures contracts outstanding during the period.

	Forward Foreign Currency Contracts	Futures Contracts
Average notional value	$2,464,795	$3,824,288

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 had a capital loss carryforward as of December 31, 2016, as follows:

Capital Loss Carryforward*

Expiration	Short-Term	Long-Term	Total
Not subject to expiration	$867,268	$245,023	$1,112,291

* Capital loss carryforward as of the date listed above is reduced for limitations, if any, to the extent required by the Internal Revenue Code and may be further limited depending upon a variety of factors, including the realization of net unrealized gains or losses as of the date of any reorganization.

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, 2017 was $4,640,380 and $8,126,627, respectively. During the same period, purchases and sales of U.S. Treasury obligations were $18,215,708 and $17,796,568, 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	$ 7,064,825
Aggregate unrealized (depreciation) of investment securities	(1,513,846)
Net unrealized appreciation of investment securities	$ 5,550,979

Cost of investments for tax purposes is $44,132,857.

NOTE 9—Share Information

Summary of Share Activity

	Six months ended June 30, 2017[a]		Year ended December 31, 2016	
	Shares	Amount	Shares	Amount
Sold:				
Series I	195,175	$ 2,391,246	300,423	$ 3,419,830
Series II	9,721	116,219	8,242	92,158
Issued as reinvestment of dividends:				
Series I	–	–	209,985	2,366,531
Series II	–	–	5,856	65,355
Reacquired:				
Series I	(455,447)	(5,579,609)	(918,562)	(10,365,620)
Series II	(13,053)	(157,007)	(23,850)	(267,680)
Net increase (decrease) in share activity	(263,604)	$(3,229,151)	(417,906)	$ (4,689,426)

[a] There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 58% 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 06/30/17	$11.97	$0.07	$ 0.41	$ 0.48	$ –	$ –	$ –	$12.45	4.01%	$48,970	1.11%[d]	1.12%[d]	1.17%[d]	47%
Year ended 12/31/16	11.38	0.14	1.03	1.17	(0.22)	(0.36)	(0.58)	11.97	10.61	50,183	1.15	1.16	1.26	92
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
Series II														
Six months ended 06/30/17	11.84	0.05	0.41	0.46	–	–	–	12.30	3.88	1,479	1.36[d]	1.37[d]	0.92[d]	47
Year ended 12/31/16	11.26	0.11	1.02	1.13	(0.19)	(0.36)	(0.55)	11.84	10.31	1,462	1.40	1.41	1.01	92
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

[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 $49,727 and $1,475 for Series I and Series II shares, respectively.

Calculating your ongoing Fund expenses

Example

As a shareholder of the Fund, you incur ongoing costs, including management fees; distribution and/or service fees (12b-1); and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with ongoing costs of investing in other mutual funds. The example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period January 1, 2017 through June 30, 2017.

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 (01/01/17)	Ending Account Value (06/30/17)[1]	Expenses Paid During Period[2]	Ending Account Value (06/30/17)	Expenses Paid During Period[2]	Annualized Expense Ratio
Series I	$1,000.00	$1,040.10	$5.61	$1,019.29	$5.56	1.11%
Series II	1,000.00	1,038.80	6.87	1,018.05	6.80	1.36

[1] The actual ending account value is based on the actual total return of the Fund for the period January 1, 2017 through June 30, 2017, after actual expenses and will differ from the hypothetical ending account value which is based on the Fund's expense ratio and a hypothetical annual return of 5% before expenses.

[2] Expenses are equal to the Fund's annualized expense ratio as indicated above multiplied by the average account value over the period, multiplied by 181/365 to reflect the most recent fiscal half year.

Approval of Investment Advisory and Sub-Advisory Contracts

The Board of Trustees (the Board) of AIM Variable Insurance Funds (Invesco Variable Insurance Funds) is required under the Investment Company Act of 1940, as amended, to approve annually the renewal of Invesco V.I. Managed Volatility Fund's (the Fund) investment advisory agreements. During contract renewal meetings held on June 12-13, 2017, 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. and separate Sub-Advisory Contracts with Invesco PowerShares Capital Management LLC and Invesco Asset Management (India) Private Limited (collectively, the Affiliated Sub-Advisers and the sub-advisory contracts) for another year, effective July 1, 2017.

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 most 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 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. This information is current as of June 13, 2017, 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 included consideration of Invesco Advisers' investment process oversight, 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 as contrasted with 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.

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.

B. Fund Investment Performance

The Board considered Fund investment 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 investment performance over multiple time periods ending December 31, 2016 to the performance of funds in the Broadridge performance universe and against the Lipper Variable Underlying Funds Mixed-Asset Target Allocation Growth Funds Index. The Board noted that performance of Series I shares of the Fund was in the first quintile of its performance universe for the one, three and five year periods (the first quintile being the best performing funds and the fifth quintile being the worst performing funds). The Board noted that performance of Series I shares of the Fund was above the performance of the Index for the one and three year periods and below the performance of the Index for the five year period. The Trustees also reviewed more recent Fund performance and this review did not change their conclusions.

C. Advisory and Sub-Advisory Fees

The Board compared the Fund's contractual management fee rate to the contractual management fee rates of funds in the Fund's

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 also compared the Fund's effective advisory fee rate (the advisory fee rate after advisory fee waivers and before other expense limitations/waivers) to the effective advisory fee rates of other mutual funds advised by Invesco Advisers and its affiliates with investment strategies comparable to those of the Fund, based on asset balances as of December 31, 2016. The Board noted that the Fund's rate was above the rates of two such mutual funds and also above the rate of two mutual funds sub-advised by Invesco Advisers. The Board noted that Invesco Advisers and its affiliates do not advise other client accounts with investment strategies comparable to those of the Fund.

The Board also considered the services that may be provided by the Affiliated Sub-Advisers pursuant to the sub-advisory contracts, as well as the fees payable by Invesco Advisers to the Affiliated Sub-Advisers pursuant to the sub-advisory contracts. The Board also noted that the sub-advisory fees are not paid directly by the Fund, but rather, are payable by Invesco Advisers to the Affiliated Sub-Advisers.

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 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 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 may result in the Fund bearing costs to purchase research that may be used by Invesco Advisers or the Affiliated Sub-Advisers with other clients and may reduce Invesco Advisers' or 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 Advisers 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 federal securities laws and consistent with best execution obligations.

Proxy Results

A Special Joint Meeting ("Meeting") of Shareholders of Invesco V.I. Managed Volatility Fund, an investment portfolio of AIM Variable Insurance Funds (Invesco Variable Insurance Funds), a Delaware statutory trust ("Trust"), was held on March 9, 2017. The Meeting was held for the following purposes:

(1) Elect 15 trustees to the Board, each of whom will serve until his or her successor is elected and qualified.

(2) Approve an amendment to the Trust's Agreement and Declaration of Trust that would permit fund mergers and other significant transactions upon the Board's approval but without shareholder approval of such transactions.

(3) Approve changing the fundamental investment restriction regarding the purchase or sale of physical commodities.

(4)(a) Approve an amendment to the current Master Intergroup Sub-Advisory Contract to add Invesco PowerShares Capital Management LLC.

(4)(b) Approve an amendment to the current Master Intergroup Sub-Advisory Contract to add Invesco Asset Management (India) Private Limited.

The results of the voting on the above matters were as follows:

	Matters	Votes For	Votes Withheld
(1)*	David C. Arch	1,256,086,249	71,094,301
	James T. Bunch	1,254,410,156	72,770,397
	Bruce L. Crockett	1,258,363,948	68,816,603
	Jack M. Fields	1,255,101,592	72,078,961
	Martin L. Flanagan	1,257,885,397	69,295,160
	Cynthia Hostetler	1,261,335,247	65,845,303
	Dr. Eli Jones	1,257,497,296	69,683,257
	Dr. Prema Mathai-Davis	1,254,728,756	72,451,795
	Teresa M. Ressel	1,261,829,473	65,351,074
	Dr. Larry Soll	1,254,261,019	72,919,533
	Ann Barnett Stern	1,260,861,373	66,319,176
	Raymond Stickel, Jr.	1,254,379,471	72,801,083
	Philip A. Taylor	1,256,589,912	70,590,639
	Robert C. Troccoli	1,260,867,549	66,313,003
	Christopher L. Wilson	1,260,186,985	66,993,567

		Votes For	Votes Against	Votes Abstain	Broker Non-Votes
(2)*	Approve an amendment to the Trust's Agreement and Declaration of Trust that would permit fund mergers and other significant transactions upon the Board's approval but without shareholder approval of such transactions.	1,054,920,918	171,591,974	100,667,642	18

	Matters	Votes For	Votes Against	Votes Abstain	Broker Non-Votes
(3)	Approve changing the fundamental investment restriction regarding the purchase or sale of physical commodities	3,089,682	336,321	304,364	0
(4)(a)	Approve an amendment to the current Master Intergroup Sub-Advisory Contract to add Invesco PowerShares Capital Management LLC	3,364,940	146,387	219,040	0
(4)(b)	Approve an amendment to the current Master Intergroup Sub-Advisory Contract to add Invesco Asset Management (India) Private Limited	3,273,992	224,679	231,696	0

* Each of proposal 1 and 2 required approval by a combined vote of all of the portfolios of AIM Variable Insurance Funds (Invesco Variable Insurance Funds).

SEMIANNUAL REPORT
June 30, 2017

Janus Henderson VIT Forty Portfolio (formerly named Janus Aspen Forty Portfolio)

Janus Aspen Series

HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your portfolio
- Portfolio performance, characteristics and holdings

Janus Henderson INVESTORS

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Janus Henderson VIT Forty Portfolio

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Janus Henderson VIT Forty Portfolio (unaudited)

PORTFOLIO SNAPSHOT
We believe that constructing a concentrated portfolio of quality growth companies will allow us to outperform our benchmark over time. We define quality as companies that enjoy sustainable "moats" around their businesses, potentially allowing companies to grow faster, with higher returns, than their competitors. We believe the market often underestimates these companies' sustainable competitive advantage periods.


Doug Rao
co-portfolio manager


Nick Schommer
co-portfolio manager

PERFORMANCE OVERVIEW

For the six-month period ended June 30, 2017, the Portfolio's Institutional Shares and Service Shares returned 19.04% and 18.90%, respectively, versus a return of 13.99% for the Portfolio's primary benchmark, the Russell 1000 Growth Index. The Portfolio's secondary benchmark, the S&P 500 Index, returned 9.34% for the period.

INVESTMENT ENVIRONMENT

U.S. equities experienced strong gains during the period. Stocks rose in the first quarter, buoyed by economic data points that suggested global economic growth and hopes that the Trump administration's proposed pro-growth initiatives would further jump-start the economy. During the second quarter, strong corporate earnings and a low global interest rate environment continued to support stocks. The technology sector was the best-performing sector within the Russell 1000 Growth Index. The energy sector lagged the broader index, due in large part to falling oil prices.

PERFORMANCE DISCUSSION

The Portfolio outperformed 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 built clear, sustainable competitive moats around their businesses, which should help them grow market share within their respective industries over time. Important competitive advantages could include a strong brand, network effects from a product or service that would be hard for a competitor to replicate, a lower cost structure than competitors in the industry, a distribution advantage or patent protection over valuable intellectual property. We think emphasizing these sustainable competitive advantages can be a meaningful driver of outperformance over longer time horizons because the market often underestimates the duration of growth for these companies and the long-term potential return to shareholders. This period we saw a number of companies in our portfolio put up impressive results, further validating our view that they are well positioned to grow in excess of the market.

Activision Blizzard was our largest contributor. Activision Blizzard's stock has appreciated as the market has begun to recognize that the company's digital transition enables a more durable cash flow stream and new avenues to monetize its franchises. We believe the trend toward digital gaming is a powerful tailwind for Activision. As gaming moves from physical game cartridges toward digital platforms, it reduces costs for Activision and makes it less reliant on the release of a new gaming console to drive game sales. Digital gaming also gives the company the ability to sell digital items to gamers in real-time. We also like that Activision has a number of popular game franchises, which makes the company less dependent on any single franchise and creates a loyal and receptive audience when a franchise launches a new release. We also believe Activision can improve monetization of games it acquired from King Digital by inserting advertisements into those games for the first time. Finally, we believe the company has an opportunity to monetize viewership of its games through eSports.

CSX Corp. also added to performance. The stock was up after an announcement that a new CEO with a history of improving operations at railroad companies was taking the helm at the company. We had long believed that CSX's operating underperformance relative to other railroad companies left room for improvement, and believe better results will follow the new leadership. We believe a large rail network such as CSX's is a valuable asset that would be hard, if not impossible, for other transportation and logistics companies to replicate. Railways also have a significant cost advantage over the trucking industry. As CSX focuses on improving its service and reliability to customers, we believe it will continue to drive more shippers to use the railway instead of trucking services.

Adobe Systems was another large contributor to performance. The stock appreciated after the company announced better-than-expected earnings results and increased guidance in each of the last two quarters. We believe the company will continue to grow profitability as its digital media business moves from a perpetual license-based business model to a subscription-based business model. We also believe Adobe's digital marketing business, which helps advertisers create digital content, is well positioned for the transition in advertising spending toward digital advertising platforms.

While pleased with our performance during the period, we still held stocks that detracted from our results. General Electric was our largest detractor. We have been disappointed in GE's cash flow conversion from its industrial businesses, and sold the position during the period.

Goldman Sachs was also a negative contributor. The company had disappointing first quarter results, as its trading business underperformed relative to its investment banking competitors. This doesn't change our long-term view. We believe the relationships Goldman has built with corporate clients and investors around the world give it a competitive advantage, and it can use that information to drive growth. We also like that Goldman has invested through the entire economic cycle, which should translate into market share gains.

Bristol Myers Squibb was another detractor. Disappointing clinical results for a trial pairing its cancer drug, Opdivo, with another treatment negatively affected the stock during the period. We sold the stock due to concerns the company's cancer treatments would lose market share within the immuno-oncology space.

OUTLOOK

We believe stocks are fairly valued, given the context of a low interest rate environment and a resilient, albeit slow-growing, economy. We would not expect further multiple expansion, but instead, earnings and free cash flow per share growth to dictate the trajectory of individual stock prices. We feel our portfolio is well positioned for such an environment.

As we've highlighted in some of our commentaries, many of our holdings are enabling some of the most powerful secular growth themes in today's economy: the shift from offline to online spending, the switch of enterprise software from on-premises data centers to the cloud and a proliferation of connected devices in the home and business, to name a few. These themes may be well known, but they remain nascent in their development. We believe our companies are still in the early innings of realizing their earnings potential as these themes push forward. We remain confident in their ability to grow earnings and welcome an environment where that growth is the key determinant of stock price appreciation.

Thank you for your investment in Janus Henderson VIT Forty Portfolio.

Janus Henderson VIT Forty Portfolio (unaudited)
Portfolio At A Glance
June 30, 2017

5 Top Performers - Holdings

	Contribution
Activision Blizzard Inc	1.91%
CSX Corp	1.38%
Adobe Systems Inc	1.11%
Amazon.com Inc	1.08%
Alphabet Inc - C Class	1.00%

5 Bottom Performers - Holdings

	Contribution
General Electric Co	-0.40%
Goldman Sachs Group Inc	-0.24%
Bristol-Myers Squibb Co	-0.22%
Sealed Air Corp	-0.09%
Biogen Inc	-0.02%

5 Top Performers - Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000 Growth Index Weighting
Information Technology	3.10%	38.15%	32.86%
Consumer Discretionary	1.63%	15.10%	20.72%
Consumer Staples	0.52%	2.49%	9.08%
Industrials	0.43%	7.40%	10.78%
Health Care	0.31%	19.41%	15.83%

5 Bottom Performers - Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000 Growth Index Weighting
Financials	-0.50%	9.27%	2.86%
Materials	-0.44%	2.96%	3.56%
Other**	-0.42%	3.69%	0.00%
Utilities	0.00%	0.00%	0.03%
Energy	0.17%	0.00%	0.52%

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

* Based on sector classification according to the Global Industry Classification Standard ("GICS") codes, which are the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

** Not a GICS classified sector.

Janus Henderson VIT Forty Portfolio (unaudited)
Portfolio At A Glance
June 30, 2017

5 Largest Equity Holdings - (% of Net Assets)

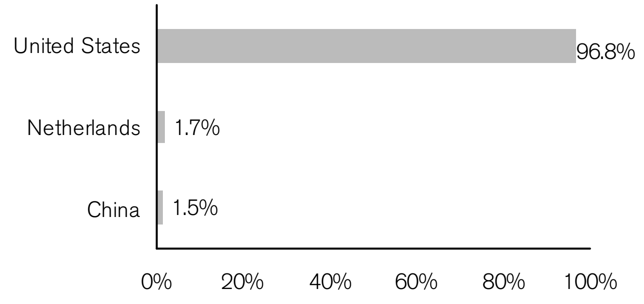
Alphabet Inc - Class C	
Internet Software & Services	6.0%
Microsoft Corp	
Software	5.0%
Activision Blizzard Inc	
Software	4.6%
Mastercard Inc	
Information Technology Services	4.5%
salesforce.com Inc	
Software	4.3%
	24.4%

Asset Allocation - (% of Net Assets)

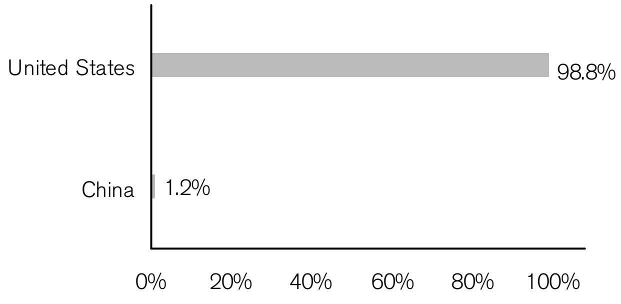
Common Stocks	93.3%
Investment Companies	6.0%
Other	0.7%
	100.0%

Top Country Allocations - Long Positions - (% of Investment Securities)

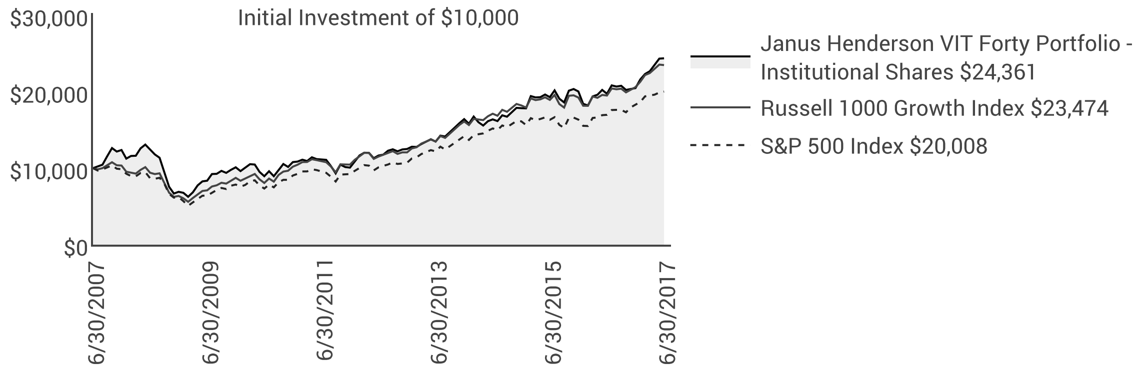
As of June 30, 2017



As of December 31, 2016



Janus Henderson VIT Forty Portfolio (unaudited)
Performance



Average Annual Total Return - for the periods ended June 30, 2017	Fiscal Year-to-Date	One Year	Five Year	Ten Year	Since Inception*	Expense Ratios - per the May 1, 2017 prospectuses: Total Annual Fund Operating Expenses
Institutional Shares	19.04%	23.49%	15.89%	9.31%	11.24%	0.74%
Service Shares	18.90%	23.22%	15.60%	9.04%	10.93%	0.99%
Russell 1000 Growth Index	13.99%	20.42%	15.30%	8.91%	7.16%	
S&P 500 Index	9.34%	17.90%	14.63%	7.18%	7.66%	
Morningstar Quartile - Institutional Shares	-	1st	1st	1st	1st	
Morningstar Ranking - based on total returns for Large Growth Funds	-	279/1,490	170/1,409	127/1,175	17/660	

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 877.335.2687 or visit janushenderson.com/VITperformance

This Portfolio has a performance-based management fee that may adjust up or down based on the Portfolio's performance.

Performance may be affected by risks that include those associated with non-diversification, portfolio turnover, short sales, potential conflicts of interest, foreign and emerging markets, initial public offerings (IPOs), high-yield and high-risk securities, undervalued, overlooked and smaller capitalization companies, real estate related securities including Real Estate Investment Trusts (REITs), derivatives, and commodity-linked investments. Each product has different risks. Please see the prospectus for more information about risks, holdings and other details.

Returns shown do not represent actual returns since they do not include insurance charges. 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 Henderson VIT Forty Portfolio (unaudited)
Performance

See Notes to Schedule of Investments and Other Information for index definitions.

Index performance does not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

See "Useful Information About Your Portfolio Report."

*The Portfolio's inception date – May 1, 1997

Janus Henderson VIT 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 (1/1/17)	Ending Account Value (6/30/17)	Expenses Paid During Period (1/1/17 - 6/30/17)†	Beginning Account Value (1/1/17)	Ending Account Value (6/30/17)	Expenses Paid During Period (1/1/17 - 6/30/17)†	Net Annualized Expense Ratio (1/1/17 - 6/30/17)
Institutional Shares	$1,000.00	$1,190.40	$4.24	$1,000.00	$1,020.93	$3.91	0.78%
Service Shares	$1,000.00	$1,189.00	$5.54	$1,000.00	$1,019.74	$5.11	1.02%

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period). Expenses in the examples include the effect of applicable fee waivers and/or expense reimbursements, if any. Had such waivers and/or reimbursements not been in effect, your expenses would have been higher. Please refer to the Notes to Financial Statements or the Portfolio's prospectuses for more information regarding waivers and/or reimbursements.

Janus Henderson VIT Forty Portfolio
Schedule of Investments (unaudited)
June 30, 2017

	Shares	Value
Common Stocks – 93.3%		
Aerospace & Defense – 1.6%		
General Dynamics Corp	59,190	$11,725,539
Auto Components – 2.1%		
Delphi Automotive PLC	182,068	15,958,260
Automobiles – 0.5%		
Tesla Inc*	10,251	3,706,864
Biotechnology – 4.6%		
Celgene Corp*	76,939	9,992,068
Regeneron Pharmaceuticals Inc*	49,844	24,480,382
		34,472,450
Capital Markets – 8.8%		
Charles Schwab Corp	374,762	16,099,776
Goldman Sachs Group Inc	87,752	19,472,169
Intercontinental Exchange Inc	310,057	20,438,958
S&P Global Inc	67,977	9,923,962
		65,934,865
Chemicals – 1.7%		
Sherwin-Williams Co	37,241	13,070,101
Construction Materials – 1.8%		
Vulcan Materials Co	103,252	13,079,963
Equity Real Estate Investment Trusts (REITs) – 1.6%		
Crown Castle International Corp	120,067	12,028,312
Food & Staples Retailing – 1.4%		
Costco Wholesale Corp	66,029	10,560,018
Health Care Equipment & Supplies – 4.8%		
Boston Scientific Corp*	695,753	19,286,273
DexCom Inc*	75,893	5,551,573
Intuitive Surgical Inc*	12,012	11,235,665
		36,073,511
Health Care Providers & Services – 1.7%		
Humana Inc	54,017	12,997,571
Hotels, Restaurants & Leisure – 1.5%		
Starbucks Corp	186,126	10,853,007
Information Technology Services – 7.1%		
Mastercard Inc	274,704	33,362,801
PayPal Holdings Inc*	372,899	20,013,489
		53,376,290
Internet & Direct Marketing Retail – 8.8%		
Amazon.com Inc*	31,017	30,024,456
Ctrip.com International Ltd (ADR)*	201,394	10,847,081
Netflix Inc*	63,469	9,482,903
Priceline Group Inc*	8,123	15,194,234
		65,548,674
Internet Software & Services – 11.6%		
Alphabet Inc - Class C*	49,016	44,542,310
CoStar Group Inc*	62,227	16,403,037
Facebook Inc	168,751	25,478,026
		86,423,373
Pharmaceuticals – 6.6%		
Allergan PLC	118,679	28,849,678
Zoetis Inc	326,524	20,368,567
		49,218,245
Road & Rail – 3.5%		
CSX Corp	484,109	26,412,987
Semiconductor & Semiconductor Equipment – 3.3%		
ASML Holding NV	99,116	12,915,806
Texas Instruments Inc	153,323	11,795,138
		24,710,944

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Janus Henderson VIT Forty Portfolio
Schedule of Investments (unaudited)
June 30, 2017

	Shares	Value
Common Stocks – (continued)		
Software – 18.1%		
Activision Blizzard Inc	603,395	$34,737,450
Adobe Systems Inc*	144,940	20,500,314
Microsoft Corp	543,155	37,439,674
salesforce.com Inc*	375,333	32,503,838
Workday Inc*	103,428	10,032,516
		135,213,792
Textiles, Apparel & Luxury Goods – 2.2%		
NIKE Inc	282,670	16,677,530
Total Common Stocks (cost $477,937,093)		698,042,296
Investment Companies – 6.0%		
Money Markets – 6.0%		
Janus Cash Liquidity Fund LLC, 0.9803%[∞,£] (cost $44,912,018)	44,912,018	44,912,018
Total Investments (total cost $522,849,111) – 99.3%		742,954,314
Cash, Receivables and Other Assets, net of Liabilities – 0.7%		5,088,664
Net Assets – 100%		$748,042,978

Summary of Investments by Country - (Long Positions) (unaudited)

Country	*Value*	*% of Investment Securities*
United States	$719,191,427	96.8 %
Netherlands	12,915,806	1.7
China	10,847,081	1.5
Total	$742,954,314	100.0 %

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Janus Henderson VIT Forty Portfolio
Notes to Schedule of Investments and Other Information (unaudited)

Russell 1000® Growth Index	Russell 1000® Growth Index reflects the performance of U.S. large-cap equities with higher price-to-book ratios and higher forecasted growth values.
S&P 500® Index	S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.
ADR	American Depositary Receipt
LLC	Limited Liability Company
PLC	Public Limited Company

* Non-income producing security.

ºº Rate shown is the 7-day yield as of June 30, 2017.

£ 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, 2017. Unless otherwise indicated, all information in the table is for the period ended June 30, 2017.

	Share Balance at 12/31/16	*Purchases*	*Sales*	*Share Balance at 6/30/17*	*Realized Gain/(Loss)*	*Dividend Income*	*Value at 6/30/17*
Janus Cash Collateral Fund LLC	—	16,693,600	(16,693,600)	—	$—	$202(1)	$—
Janus Cash Liquidity Fund LLC	8,949,000	169,477,018	(133,514,000)	44,912,018	—	92,167	44,912,018
Total					$—	$92,369	$44,912,018

(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, 2017. See Notes to Financial Statements for more information.

Valuation Inputs Summary

	Level 1 - Quotes Prices	***Level 2 - Other Significant Observable Inputs***	***Level 3 - Significant Unobservable Inputs***
Assets			
Investments in Securities:			
Common Stocks	$ 698,042,296	$ -	$ -
Investment Companies	-	44,912,018	-
Total Assets	$ 698,042,296	$ 44,912,018	$ -

Janus Henderson VIT Forty Portfolio
Statement of Assets and Liabilities (unaudited)
June 30, 2017

Assets:		
Investments, at cost	$	522,849,111
Unaffiliated investments, at value		698,042,296
Affiliated investments, at value		44,912,018
Cash		533
Non-interested Trustees' deferred compensation		13,307
Receivables:		
Investments sold		8,448,471
Portfolio shares sold		280,269
Dividends		219,067
Foreign tax reclaims		68,884
Dividends from affiliates		37,277
Other assets		1,777
Total Assets		752,023,899
Liabilities:		
Payables:		
Investments purchased		2,740,816
Advisory fees		520,084
Portfolio shares repurchased		453,748
12b-1 Distribution and shareholder servicing fees		99,535
Transfer agent fees and expenses		35,549
Professional fees		15,660
Non-interested Trustees' deferred compensation fees		13,307
Portfolio administration fees		6,289
Non-interested Trustees' fees and expenses		4,097
Custodian fees		71
Accrued expenses and other payables		91,765
Total Liabilities		3,980,921
Net Assets	$	748,042,978
Net Assets Consist of:		
Capital (par value and paid-in surplus)	$	479,302,981
Undistributed net investment income/(loss)		663,938
Undistributed net realized gain/(loss) from investments		47,970,266
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation		220,105,793
Total Net Assets	$	748,042,978
Net Assets - Institutional Shares	$	297,531,550
Shares Outstanding, $0.01 Par Value (unlimited shares authorized)		8,192,115
Net Asset Value Per Share	$	36.32
Net Assets - Service Shares	$	450,511,428
Shares Outstanding, $0.01 Par Value (unlimited shares authorized)		13,017,232
Net Asset Value Per Share	$	34.61

See Notes to Financial Statements.

Janus Henderson VIT Forty Portfolio
Statement of Operations (unaudited)
For the period ended June 30, 2017

Investment Income:		
Dividends	$	3,854,013
Dividends from affiliates		92,167
Affiliated securities lending income, net		202
Other income		22
Foreign tax withheld		(16,123)
Total Investment Income		3,930,281
Expenses:		
Advisory fees		2,479,846
12b-1Distribution and shareholder servicing fees:		
Service Shares		560,758
Transfer agent administrative fees and expenses:		
Institutional Shares		70,629
Service Shares		112,152
Other transfer agent fees and expenses:		
Institutional Shares		5,018
Service Shares		4,769
Shareholder reports expense		42,998
Portfolio administration fees		33,093
Professional fees		19,386
Registration fees		15,930
Custodian fees		7,102
Non-interested Trustees' fees and expenses		6,686
Other expenses		29,902
Total Expenses		3,388,269
Net Investment Income/(Loss)		542,012
Net Realized Gain/(Loss) on Investments:		
Investments		48,442,551
Total Net Realized Gain/(Loss) on Investments		48,442,551
Change in Unrealized Net Appreciation/Depreciation:		
Investments, foreign currency translations and non-interested Trustees' deferred compensation		76,702,623
Total Change in Unrealized Net Appreciation/Depreciation		76,702,623
Net Increase/(Decrease) in Net Assets Resulting from Operations	$	125,687,186

See Notes to Financial Statements.

Janus Henderson VIT Forty Portfolio
Statements of Changes in Net Assets

	Period ended June 30, 2017 (unaudited)	Year ended December 31, 2016
Operations:		
Net investment income/(loss)	$ 542,012	$ (19,397)
Net realized gain/(loss) on investments	48,442,551	40,288,179
Change in unrealized net appreciation/depreciation	76,702,623	(26,711,467)
Net Increase/(Decrease) in Net Assets Resulting from Operations	125,687,186	13,557,315
Dividends and Distributions to Shareholders:		
Distributions from Net Realized Gain from Investment Transactions		
Institutional Shares	(15,738,032)	(37,062,653)
Service Shares	(24,926,390)	(65,123,788)
Net Decrease from Dividends and Distributions to Shareholders	(40,664,422)	(102,186,441)
Capital Share Transactions:		
Institutional Shares	7,612,434	(7,170,480)
Service Shares	(32,110,730)	(13,410,718)
Net Increase/(Decrease) from Capital Share Transactions	(24,498,296)	(20,581,198)
Net Increase/(Decrease) in Net Assets	60,524,468	(109,210,324)
Net Assets:		
Beginning of period	687,518,510	796,728,834
End of period	$ 748,042,978	$ 687,518,510
Undistributed Net Investment Income/(Loss)	$ 663,938	$ 121,926

See Notes to Financial Statements.

Janus Henderson VIT Forty Portfolio
Financial Highlights

Institutional Shares

For a share outstanding during the period ended June 30, 2017 (unaudited) and each year ended December 31	2017	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	$32.19	$36.37	$40.27	$53.34	$40.95	$33.22
Income/(Loss) from Investment Operations:						
Net investment income/(loss)	0.05(1)	0.05(1)	0.03(1)	0.03(1)	0.38	0.47
Net realized and unrealized gain/(loss)	6.11	0.58	4.77	3.08	12.34	7.54
Total from Investment Operations	6.16	0.63	4.80	3.11	12.72	8.01
Less Dividends and Distributions:						
Dividends (from net investment income)	—	—	—	(0.09)	(0.33)	(0.28)
Distributions (from capital gains)	(2.03)	(4.81)	(8.70)	(16.09)	—	—
Total Dividends and Distributions	(2.03)	(4.81)	(8.70)	(16.18)	(0.33)	(0.28)
Net Asset Value, End of Period	$36.32	$32.19	$36.37	$40.27	$53.34	$40.95
Total Return*	19.04%	2.20%	12.22%	8.73%	31.23%	24.16%
Net Assets, End of Period (in thousands)	$297,532	$257,009	$295,725	$299,546	$355,429	$488,374
Average Net Assets for the Period (in thousands)	$284,515	$273,374	$298,904	$307,359	$491,231	$512,799
Ratios to Average Net Assets**:						
Ratio of Gross Expenses	0.78%	0.72%	0.69%	0.57%	0.55%	0.55%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.78%	0.72%	0.69%	0.57%	0.55%	0.55%
Ratio of Net Investment Income/(Loss)	0.31%	0.15%	0.08%	0.07%	0.31%	1.03%
Portfolio Turnover Rate	17%	53%	55%	46%	61%	10%

Service Shares

For a share outstanding during the period ended June 30, 2017 (unaudited) and each year ended December 31	2017	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	$30.79	$35.08	$39.21	$52.40	$40.28	$32.72
Income/(Loss) from Investment Operations:						
Net investment income/(loss)	0.01(1)	(0.03)(1)	(0.06)(1)	(0.07)(1)	—(2)	0.31
Net realized and unrealized gain/(loss)	5.84	0.55	4.63	2.99	12.38	7.47
Total from Investment Operations	5.85	0.52	4.57	2.92	12.38	7.78
Less Dividends and Distributions:						
Dividends (from net investment income)	—	—	—	(0.02)	(0.26)	(0.22)
Distributions (from capital gains)	(2.03)	(4.81)	(8.70)	(16.09)	—	—
Total Dividends and Distributions	(2.03)	(4.81)	(8.70)	(16.11)	(0.26)	(0.22)
Net Asset Value, End of Period	$34.61	$30.79	$35.08	$39.21	$52.40	$40.28
Total Return*	18.90%	1.94%	11.94%	8.47%	30.89%	23.82%
Net Assets, End of Period (in thousands)	$450,511	$430,510	$501,003	$492,253	$526,971	$471,002
Average Net Assets for the Period (in thousands)	$452,149	$464,943	$501,868	$493,575	$486,845	$468,967
Ratios to Average Net Assets**:						
Ratio of Gross Expenses	1.02%	0.97%	0.94%	0.82%	0.81%	0.80%
Ratio of Net Expenses (After Waivers and Expense Offsets)	1.02%	0.97%	0.94%	0.82%	0.81%	0.80%
Ratio of Net Investment Income/(Loss)	0.05%	(0.09)%	(0.17)%	(0.17)%	0.04%	0.81%
Portfolio Turnover Rate	17%	53%	55%	46%	61%	10%

* 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 Henderson VIT Forty Portfolio (formerly named Janus Aspen Forty Portfolio) (the "Portfolio") is a series 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, each of which offers multiple share classes, with differing investment objectives and policies. The Portfolio seeks long-term growth of capital. 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, 2017 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") of 2010 provided for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which 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"). There is considerable uncertainty about how Brexit will be conducted, how negotiations of necessary treaties and trade agreements will proceed, or how financial markets will react. In addition, 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.

The Portfolio may be exposed to counterparty risk through participation in various programs, including, but not limited to, lending its securities to third parties, cash sweep arrangements whereby the Portfolio's cash balance is invested in one or more types of cash management vehicles, as well as investments in, but not limited to, repurchase agreements, debt securities, and derivatives, including various types of swaps, futures and options. The Portfolio intends to enter into financial transactions with counterparties that Janus Capital believes to be creditworthy at the time of the transaction. There is always the risk that Janus Capital's analysis of a counterparty's creditworthiness is incorrect or may change due to market conditions. To the extent that the Portfolio focuses its transactions with a limited number of counterparties, it will have greater exposure to the risks associated with one or more counterparties.

Real Estate Investing

The Portfolio may invest in equity and debt securities of real estate-related companies. Such companies may include those in the real estate industry or real estate-related industries. These securities may include common stocks, 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 (if applicable). 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. There were no securities on loan as of June 30, 2017.

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 based on the Portfolio's relative performance compared to the cumulative investment record of its benchmark index over a 36-month performance measurement period or shorter time period, as applicable..

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, 2017, the performance adjusted investment advisory fee rate before any waivers and/or reimbursements of expenses is 0.68%.

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 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 some or all of the salaries, fees, and expenses of certain Janus Capital employees and Portfolio officers, with respect to certain specified administration functions they perform on behalf of the Portfolio. 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 $1,138 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the period ended June 30, 2017. 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 Henderson 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, 2017 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, 2017 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 $206,075 were paid by the Trust to the Trustees under the Deferred Plan during the period ended June 30, 2017.

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, 2017 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, 2017, the Portfolio engaged in cross trades amounting to $30,054,882 in sales, resulting in a net realized gain of $7,687,771. The net realized gain is included within the "Net Realized 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, 2017 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)*
$ 523,462,397	$219,514,445	$ (22,528)	$ 219,491,917

5. Capital Share Transactions

	Period ended June 30, 2017		Year ended December 31, 2016	
	Shares	Amount	Shares	Amount
Institutional Shares:				
Shares sold	475,717	$ 16,799,318	699,774	$ 23,356,199
Reinvested dividends and distributions	427,548	15,738,032	1,192,492	37,062,653
Shares repurchased	(695,905)	(24,924,916)	(2,038,134)	(67,589,332)
Net Increase/(Decrease)	207,360	$ 7,612,434	(145,868)	$ (7,170,480)
Service Shares:				
Shares sold	720,628	$ 24,643,727	1,166,469	$ 37,891,921
Reinvested dividends and distributions	710,558	24,926,390	2,187,564	65,123,788
Shares repurchased	(2,397,091)	(81,680,847)	(3,651,743)	(116,426,427)
Net Increase/(Decrease)	(965,905)	$(32,110,730)	(297,710)	$(13,410,718)

6. Purchases and Sales of Investment Securities

For the period ended June 30, 2017, 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*
$119,303,857	$ 232,577,047	$ -	$ -

7. Recent Accounting Pronouncements

The Securities and Exchange Commission ("SEC") adopted new rules as well as amendments to its rules to modernize the reporting and disclosure of information by registered investment companies. In addition, the SEC adopted amendments to Regulation S-X, which require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The compliance date of the amendments to Regulation S-X is August 1, 2017. Management believes that many of the Regulation S-X amendments are consistent with the Portfolio’s current financial statement presentation and will not have a significant impact on the Portfolio.

The FASB issued Accounting Standards Update No. 2017-08*, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities* ("ASU 2017-08") to amend the amortization period for certain purchased callable debt securities held at a premium. The guidance requires certain premiums on callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount will not be impacted. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. Management is currently evaluating the impacts of ASU 2017-08 on the financial statements.

8. Merger Related Matters

On October 3, 2016, Janus Capital Group Inc. (“JCGI”), the direct parent of Janus Capital, and Henderson Group plc (“Henderson”) announced that they had entered into an Agreement and Plan of Merger (“Merger Agreement”) relating to the strategic combination of Henderson and JCGI (the “Merger”). Pursuant to the Merger Agreement, a newly formed, direct wholly-owned subsidiary of Henderson will merge with and into JCGI, with JCGI as the surviving corporation and a direct wholly-owned subsidiary of Henderson.

The consummation of the Merger may be deemed to be an “assignment” (as defined in the 1940 Act) of the advisory agreement between the Portfolio and Janus Capital that is in effect as of the date of this Report. As a result, the consummation of the Merger will cause the investment advisory agreement to terminate automatically in accordance with its terms.

On December 8, 2016, the Trustees approved, subject to approval of shareholders, a new investment advisory agreement between the Portfolio and Janus Capital in order to permit Janus Capital to continue to provide advisory services to the Portfolio following the closing of the Merger ("Post-Merger Advisory Agreement"). The Post-Merger Advisory Agreement will have substantially similar terms as the corresponding investment advisory agreement that is in effect as of the date of this Report.

Approval of Advisory Agreements

On April 18, 2017, shareholders of the Portfolio approved the Post-Merger Advisory Agreement with Janus Capital. The Post- Merger Advisory Agreement took effect upon the consummation of the Merger.

9. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to June 30, 2017 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 1-877-335-2687 (toll free); (ii) on the Portfolio's website at janushenderson.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 janushenderson.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 Henderson at 1-877-335-2687 (toll free).

APPROVAL OF ADVISORY AGREEMENTS DURING THE PERIOD

What follows is a discussion of the material factors and conclusions with respect thereto that formed the basis for the Trustees of Janus Aspen Series' approval of the investment advisory agreements for the Funds and the sub-advisory agreements for the Funds, as applicable, during the period. This discussion references a Transaction (as defined below) to combine the respective businesses of Henderson Group plc and Janus Capital Group, Inc., which resulted in the Trustees' consideration of new investment advisory agreements for the Funds and sub-advisory agreements for the Funds, as applicable. During the period, the Trustees also approved the renewal of the existing investment advisory agreements for the Funds and the sub-advisory agreements for the Funds, as applicable, which were subsequently replaced by the new investment advisory and sub-advisory agreements at the close of the Transaction on May 30, 2017.

Approval of Advisory and Sub-Advisory Agreements with Janus and Janus Affiliates during the Period

On September 15, 2016, Janus Capital Group Inc. ("Janus") advised the Trustees of Janus Aspen Series (the "Trust"), each of whom serves as an "independent" Trustee (the "Board" or the "Trustees"), of its intent to seek a strategic combination of its advisory business with Henderson Group plc ("Henderson"). The Board met with the Chief Executive Officer of Janus, who outlined the proposed combination and the potential benefits to Janus Capital Management LLC ("Janus Capital") and each Fund of the Trust (each, a "Fund" and collectively, the "Funds").

Subsequent to the September 15, 2016 meeting, the Trustees identified a list of basic principles, which they believed should serve as the foundation for their review of the organizational, operational and strategic issues involved with any potential change in control of Janus Capital, the investment adviser to the Funds. These basic principles were communicated to Janus Capital on September 27, 2016, and were intended to be shared with Henderson. On October 3, 2016, Janus announced that it had entered into a definitive Agreement and Plan of Merger with Henderson pursuant to which Janus and Henderson agreed to effect an all-stock merger of equals strategic combination of their respective businesses, with Janus Capital surviving the merger as a direct wholly-owned subsidiary of Henderson (the "Transaction"). The Board was advised that, subject to certain conditions, the Transaction is currently expected to close during the second quarter of 2017.

As part of its due diligence, the Board developed an initial list of questions related to the proposed transaction, which was provided to Janus Capital on October 6, 2016. At a special Board meeting held on October 19, 2016, the Board considered Janus Capital's response to the initial information request and met with the management of Janus to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, addressing, among other matters, the personnel expected to provide such services, and the resources available to do so. After its October 19, 2016 meeting, the Board developed a supplemental request for additional information, which was provided to Janus Capital on October 26, 2016. At another special Board meeting held on November 7-8, 2016, the Board considered Janus Capital's response to the supplemental information request and again met with the management of Janus and Henderson to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, and also met with various officers of the Funds and of Janus Capital including various Fund portfolio managers. After its November 7-8, 2016 meeting, the Board developed a second supplemental request for additional information, which was provided to Janus Capital on November 21, 2016. On December 7-8, 2016, the Board met to consider Janus

Capital's response to the second supplemental information request and to also consider the proposed new investment advisory agreements between the Trust, on behalf of each Fund, and Janus Capital (each, a "New Advisory Agreement" and collectively, the "New Advisory Agreements") and the new sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH Investment Management LLC ("INTECH") or Perkins Investment Management LLC ("Perkins") as sub-advisers (each, a "New Sub-Advisory Agreement" and collectively, the "New Sub-Advisory Agreements") to take effect immediately after the Transaction or shareholder approval, whichever is later. During each of these meetings, the Board sought additional and clarifying information as it deemed necessary or appropriate. Throughout the process, the Board had the assistance of its independent legal counsel, who advised them on, among other things, its duties and obligations.

In connection with the Board's review, Janus Capital provided, and the Board obtained, substantial information regarding the following matters: the management, financial position and business of Henderson; the history of Henderson's business and operations; the investment performance of the investment companies advised by Henderson; the proposed structure, operations and investment processes of the combined investment management organization after the Transaction and the strategy for operating and growing the business following the Transaction; the future plans of Janus and Henderson with respect to the Funds and any proposed changes to the operations or structure of the Funds; and the future plans of Janus and Henderson with respect to the provision of services to the Funds, and the entities providing such services, including those affiliated with Janus. The Board also received information regarding the terms of the Transaction, anticipated management of the combined organization, the resources that each of Janus and Henderson bring to the combined organization and the process being followed by Janus and Henderson to integrate their organizations. The Board also received information regarding the impact of the Transaction on each of INTECH and Perkins.

In connection with the Board's approval of New Advisory Agreements and New Sub-Advisory Agreements at its December 8, 2016 meeting, the Board also continued its on-going annual process to determine whether to continue the existing investment advisory agreements between Janus Capital and the Trust on behalf of each Fund (each, a "Current Advisory Agreement" and collectively, the "Current Advisory Agreements") and the existing sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH or Perkins as sub-advisers (each, a "Current Sub-Advisory Agreement" and collectively, the "Current Sub-Advisory Agreements"). In this regard, the Board received and reviewed information provided by Janus and the respective Sub-Advisers in response to requests of the Board and its independent legal counsel. The Board also received and reviewed information and analysis provided by, and in response to requests of, its independent fee consultant. The Board noted that as part of this annual process, the Board had considered and was in the process of considering, numerous factors, including the nature and quality of services provided by Janus Capital and each Sub-Adviser, as applicable; investment performance, on an absolute basis and relative to appropriate peer groups and one or a combination of market indices; investment management fees, expense ratios and asset sizes of the Funds and peer groups; investment management fees charged to comparable investment companies, separate accounts and non-fund clients; Janus Capital's profitability from managing the Funds; fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital; and the potential benefits to Janus Capital, the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In determining whether to approve the New Advisory Agreement for each Fund and the New Sub-Advisory Agreement for Funds managed by INTECH or Perkins in connection with the Transaction, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- The terms of the New Advisory Agreements are substantially similar to the corresponding Current Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- The terms of the New Sub-Advisory Agreements are substantially similar to the corresponding Current Sub-Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Sub-Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.

- Janus Capital's plans for the operation of the Funds, including its plans for the continued provision of all services currently provided to the Funds by Janus Capital and its affiliates, including, among others, investment advisory services, portfolio trading services, and Fund administrative and accounting services, and the personnel and resources proposed to support the provision of such services.
- The estimated profitability to Janus Capital from managing the Funds after the Transaction, including potential economies of scale and fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital, and the potential benefits to Janus Capital, and the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In connection with its deliberations, the Board received assurances from Janus, on behalf of itself and its affiliates (collectively, "Janus") including the following:

- Janus has provided to the Board such information as it believes is reasonably necessary to evaluate the New Advisory Agreements and New Sub-Advisory Agreements.
- Janus is committed to the continuance, without interruption, of services to the Funds of at least the type and quality currently provided by Janus Capital and its affiliates, or superior thereto.
- The Transaction is not expected to affect negatively the nature, extent or quality of the investment advisory services provided by Janus Capital to the Funds following the Transaction, and the investment advisory services are expected to be at least comparable to the services being provided under the Current Advisory Agreements and Current Sub-Advisory Agreements. In this regard, the Board noted specific representations that Janus does not intend for the nature, extent or quality of investment advisory and other services to be provided to the Funds following the Transaction to change, and the extent of such services were expected to increase based on the combined resources of the combined investment management organization after the Transaction, and should the nature, extent or quality of such services decline, Janus would commit the resources needed to return such services to pre-Transaction levels.
- The Funds' current operations were expected to remain largely unchanged, except for certain fund reorganizations which will be separately considered by the Board, and such other changes as were or will be presented to the Board.
- The Transaction is not expected to result in any changes to the portfolio managers providing services to the Funds.
- After the Transaction, the distribution and marketing services provided to the Janus Funds were expected to be improved or enhanced based on the combined resources of Janus and Henderson. In this regard, Janus Capital advised the Board that after the Transaction, the extent of distribution and marketing services provided to the Janus Funds are expected to increase based on the combined resources of Janus and Henderson. This is due primarily to the anticipated increase of sales related resources and expanded global presence of the combined Janus Henderson organization, which is expected to enhance visibility and brand recognition of the Janus Henderson Funds.
- The intent of Janus Capital to take the necessary and appropriate steps to retain and attract key investment advisory personnel.
- The intent of Janus to take the necessary and appropriate steps to retain and attract key compliance, financial, fund accounting and administrative personnel supporting the management and oversight of the Funds.
- Janus is not aware of any express or implied term, condition, arrangement or understanding that would impose in its best judgement an "unfair burden" on any Fund as a result of the Transaction, as defined in Section 15(f) of the 1940 Act, and that Janus will take no action that would have the effect of imposing such an "unfair burden" on any Fund in connection with the Transaction.

Janus assured the Board that it intended to comply with Section 15(f) of the Investment Company Act of 1940, as amended. Section 15(f) provides a non-exclusive safe harbor for an investment adviser to an investment company or any of its affiliated persons to receive any amount or benefit in connection with a change in control of the investment adviser so long as two conditions are met. First, for a period of three years after the transaction, at least 75% of the board members of the investment company must not be interested persons of such investment adviser (as defined under the 1940 Act). The composition of the Board is in compliance with this provision of Section 15(f). In addition, after careful review and consideration, the Board determined that it would be in the best interests of the Funds to add to the Board an individual who currently acts as a non-interested board member of the Henderson Trust. The Board believes that this change in the Board composition will provide perspective and insight relating to experience working with the Henderson organization. The Board's Nominating and Governance Committee considered a number of candidates and recommended that the Board nominate one proposed new trustee from those candidates who currently act as non-interested board members of the Henderson Trust. The Board approved that trustee nominee to serve on the Board, subject to election by the shareholders of the Funds and contingent on the closing of the Transaction. If the new trustee is elected and serves on the Board, the Board composition would continue to satisfy the provisions of Section 15(f).

To meet the second condition of Section 15(f), an "unfair burden" must not be imposed upon the investment company as a result of such transaction or any express or implied terms, conditions or understandings applicable thereto. The term "unfair burden" is defined in Section 15(f) to include any arrangement during the two-year period after the transaction, whereby the investment adviser, or any interested person of such adviser, receives or is entitled to receive any compensation, directly or indirectly, from the investment company or its shareholders (other than fees for bona fide investment advisory or other services) or from any person in connection with the purchase or sale of securities or other property to, from or on behalf of the investment company (other than bona fide ordinary compensation as principal underwriter for such investment company).

Janus represented that it does not believe that an "unfair burden" will be placed on the Funds as a result of the Transaction. In furtherance thereof, Janus has undertaken to pay the costs of preparing and distributing proxy materials to, and of holding the meetings of, the Funds' shareholders (the "Meetings"), as well as other fees and expenses in connection with the Transaction, including the reasonable fees and expenses of legal counsel and consultants to the Funds and the Trustees. In addition, Janus has agreed, for a period of two years following the closing of the Transaction, (i) not to request any increases to advisory fees for the Funds, other than those proposed to and approved by the Board prior to the close of the Transaction, and (ii) to continue to use the current process by which expense caps are set annually for the Funds.

As a result of its review and consideration of the New Investment Advisory Agreements and New Sub-Advisory Agreements in connection with the Transaction, at a meeting on December 8, 2016, the Board voted unanimously to approve a New Investment Advisory Agreement for each Fund and a New Sub-Advisory Agreement for each Fund managed by INTECH or Perkins, and to recommend such agreements to the Funds' shareholders for their approval.

Approval of Interim Advisory and Sub-Advisory Agreements with Janus and Janus Affiliates during the Period

In the event shareholders of a Fund do not approve such Fund's New Advisory Agreement and/or New Sub- Advisory Agreement at the Meetings prior to the closing of the Transaction, Janus Capital proposed that an interim investment advisory agreement between Janus Capital and such Fund (each, an "Interim Advisory Agreement" and collectively, the "Interim Advisory Agreements") and an interim sub-advisory agreement between Janus Capital and the applicable Sub-Adviser (each, an "Interim Sub-Advisory Agreement" and collectively, the "Interim Sub- Advisory Agreements") take effect upon the closing of the Transaction. At the December 8, 2016 meeting, the Board, all of whom are Independent Trustees, unanimously approved an Interim Advisory Agreement for each Fund and an Interim Sub-Advisory Agreement for each applicable Fund in order to assure continuity of investment advisory services to the Funds and sub-advisory services to the sub-advised Funds after the Transaction. The terms of each Interim Advisory Agreement are substantially identical to those of the applicable Current Advisory Agreement and New Advisory Agreement, except for the term and escrow provisions described below. Similarly, the terms of each Interim Sub-Advisory Agreement are substantially identical to those of the Current Sub-Advisory Agreements and New Sub-Advisory Agreements, except for the term and escrow provisions described below. The Interim Advisory Agreement and Interim Sub-Advisory Agreement will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction (the "150-day period") or when shareholders of the Fund approve the New Advisory Agreement and/or New Sub-Advisory Agreement. Pursuant to Rule 15a-4 under the 1940 Act, compensation earned by Janus Capital under an Interim Advisory Agreement and compensation earned by a Sub-Adviser under an Interim Sub-Advisory Agreement will be held in an interest-bearing escrow account. If shareholders of a Fund approve the New Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Advisory Agreement will be paid to Janus Capital. If shareholders of a Fund approve the New Advisory Agreement and New Sub-Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Sub-Advisory Agreement will be paid to the Sub- Adviser. If shareholders of a Fund do not approve the New Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and Janus Capital will be paid the lesser of its costs incurred in performing its services under the Interim Advisory Agreement or the total amount in the escrow account, plus interest earned. If shareholders of a Fund do not approve the New Advisory Agreement and/or New Sub-Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and the Sub-Adviser will be paid the lesser of its costs incurred in performing its services under the Interim Sub-Advisory Agreement or the total amount in the escrow account, plus interest earned.

Approval of an Amended and Restated Investment Advisory Agreement for Janus Henderson Research Portfolio (formerly, Janus Portfolio)

Janus Capital met with the Trustees on December 7-8, 2016, to discuss the approval of an amended and restated investment advisory agreement (the "Amended Advisory Agreement") between Janus Capital and the Trust on behalf of Janus Portfolio (for the purposes of this section, the "Fund" refers to Janus Portfolio) and other matters related to the proposed changes to the Fund's name, principal investment strategies, and portfolio management team (the "Realignment"). At the meeting, the Trustees also discussed the Amended Advisory Agreement and other matters related to the Realignment with their independent counsel in executive session. During the course of this meeting, the Trustees requested and considered such information as they deemed relevant to their deliberations. In addition, at prior meetings and during the course of this meeting the Board also considered the proposal to merge the Janus Fund, a series of Janus Investment Fund, into the Janus Research Fund, another series of Janus Investment Fund, and undertook a comprehensive process to evaluate the impact of the Transaction on the nature, quality and extent of services expected to be provided by Janus Capital to the Fund, including after the completion of the Transaction. For a fuller discussion of the Board's consideration of the approval of a new investment advisory agreement for the Fund in connection with the Transaction, see "Approval of Advisory and Sub-Advisory Agreements with Janus and Janus Affiliates during the Period" above.

At a meeting of the Board of Trustees held on December 8, 2016, the Trustees approved the Amended Advisory Agreement and other matters related to the Realignment. In determining whether to approve the Amended Advisory Agreement, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- the terms of the Amended Advisory Agreement are substantially the same as the Current Advisory Agreement, except for the change to the advisory fee rate based on the amount of such outperformance or underperformance (the "Full Performance Rate") and cumulative investment record of the Fund's benchmark index (the "Performance Fee Benchmark");
- the estimated impact of the change to the Full Performance Rate and Performance Fee Benchmark on the amount of advisory fees to be paid by the Fund, including consideration of comparative pro forma data showing the advisory fees payable if the Amended Advisory Agreement had been in place in prior years;
- the Fund's investment team will be able to more efficiently manage the Fund's portfolio, assuming the merger of the Janus Fund into Janus Research Fund is implemented, which may also provide benefits from opportunities to aggregate trading across funds that have similar investment strategies;
- Janus Capital's belief that the Fund shareholders may benefit from the Realignment, as a result of the research- driven investment process to be implemented, which includes lower historical transaction costs and potential performance gains from securities lending as compared to the Fund's current investment approach;
- the Realignment was being proposed as part of Janus Capital's efforts to streamline its product line;
- Janus Capital's belief that the Fund would benefit from Janus Capital's operational efficiencies resulting from the merger of the Janus Fund into the Janus Research Fund and the Realignment, including a potentially more efficient and effective investment management approach providing the potential for a growing fund and improved performance after the Realignment;
- the costs of seeking approval of the Amended Advisory Agreement will be borne by Janus Capital;

- the costs incurred to reposition the Fund's portfolio in connection with the Realignment;
- the potential tax consequences of any repositioning of the Fund's portfolio as a result of the Merger; and any potential benefits of Janus Capital and its affiliates as a result of the Realignment.

Renewal of Advisory and Sub-Advisory Agreements with Janus Capital and Janus Capital Affiliates 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.

Additionally, in connection with their consideration of whether to continue the investment advisory agreement and subadvisory agreement for each Fund, as applicable, the Trustees also received and reviewed information in connection with the proposed transaction to combine the respective businesses of Henderson Group plc and Janus Capital Group, Inc., the parent company of Janus Capital (the "Transaction"), announced in October 2016, which Janus Capital advised the Trustees was expected to close in the second quarter of 2017. In this regard, the Trustees reviewed information regarding the impact of the Transaction on the services to be provided by Janus Capital and each subadviser, as applicable, to the Funds under such agreements both prior to the close of the Transaction, and afterwards, if the Transaction were not to close. If the Transaction closes, all such agreements would be replaced by new investment advisory agreements and subadvisory agreements, as applicable, for each Fund, assuming requisite Fund shareholder approvals have been obtained.

At a meeting held on January 26, 2017, 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 February 1, 2017 through February 1, 2018, 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, 2016, approximately 76% of the Funds were in the top two Broadridge quartiles of performance, and for the 12 months ended September 30, 2016, approximately 47% 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 Henderson Flexible Bond Fund (formerly, Janus Flexible Bond Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Bond Fund (formerly, 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, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Unconstrained Bond Fund (formerly, Janus Global Unconstrained Bond Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson High-Yield Fund (formerly, Janus High-Yield Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Multi-Sector Income Fund (formerly, 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, 2016.
- For Janus Henderson Real Return Fund (formerly, 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, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.

- For Janus Henderson Short-Term Bond Fund (formerly, 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, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Government Money Market Fund (formerly, 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, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance.
- For Janus Henderson Money Market Fund (formerly, Janus Money Market Fund), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance.

Asset Allocation Funds

- For Janus Henderson Global Allocation Fund – Conservative (formerly, Janus Global Allocation Fund – Conservative), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Allocation Fund – Growth (formerly, Janus Global Allocation Fund – Growth), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. 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 Henderson Global Allocation Fund – Moderate (formerly, Janus Global Allocation Fund – Moderate), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.

Alternative Fund

- For Janus Henderson Diversified Alternatives Fund (formerly, Janus Diversified Alternatives Fund), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.

Value Funds

- For Janus Henderson International Value Fund (formerly, Perkins International Value Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Value Fund (formerly, Perkins Global Value Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Large Cap Value Fund (formerly, Perkins Large Cap Value Fund), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016. 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 Janus Henderson Mid Cap Value Fund (formerly, 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, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016. 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 Janus Henderson Select Value Fund (formerly, Perkins Select Value Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Small Cap Value Fund (formerly, Perkins Small Cap Value Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Value Plus Income Fund (formerly, 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, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016.

Mathematical Funds

- For Janus Henderson Emerging Markets Managed Volatility Fund (formerly, INTECH Emerging Markets Managed Volatility Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Income Managed Volatility Fund (formerly, 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, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson International Managed Volatility Fund (formerly, INTECH International Managed Volatility Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson U.S. Managed Volatility Fund (formerly, INTECH U.S. Managed Volatility Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.

Growth and Core Funds

- For Janus Henderson Balanced Fund (formerly, Janus Balanced Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Contrarian Fund (formerly, Janus Contrarian Fund), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. 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 Henderson Enterprise Fund (formerly, Janus Enterprise Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Forty Fund (formerly, Janus Forty Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Growth and Income Fund (formerly, Janus Growth and Income Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and in the second Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Research Fund (formerly, Janus Research Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016.

- For Janus Henderson Triton Fund (formerly, Janus Triton Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Venture Fund (formerly, Janus Venture Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016.

Global and International Funds

- For Janus Henderson Adaptive Global Allocation Fund (formerly, Janus Adaptive Global Allocation Fund), the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For Janus Henderson Asia Equity Fund (formerly, 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, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. 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 Henderson Global Life Sciences Fund (formerly, 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, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Real Estate Fund (formerly, Janus Global Real Estate Fund), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. 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 Henderson Global Research Fund (formerly, Janus Global Research Fund), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. 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 Henderson Global Select Fund (formerly, Janus Global Select Fund), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. 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 Henderson Global Technology Fund (formerly, 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, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Overseas Fund (formerly, Janus Henderson Overseas Fund), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. 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 Henderson Balanced Portfolio (formerly, 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, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016.

- For Janus Henderson Enterprise Portfolio (formerly, Janus Aspen Enterprise Portfolio), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Flexible Bond Portfolio (formerly, 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, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Forty Portfolio (formerly, Janus Aspen Forty Portfolio), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Allocation Portfolio – Moderate (formerly, Janus Aspen Global Allocation Portfolio – Moderate), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. 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 Henderson Global Research Portfolio (formerly, Janus Aspen Global Research Portfolio), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. 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 Henderson Global Technology Portfolio (formerly, Janus Aspen Global Technology Portfolio), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016. 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 Henderson Global Unconstrained Bond Portfolio (formerly, Janus Aspen Global Unconstrained Bond Portfolio), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson U.S. Low Volatility Portfolio (formerly, Janus Aspen INTECH U.S. Low Volatility Portfolio), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Research Portfolio (formerly, Janus Aspen Janus Portfolio), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Overseas Portfolio (formerly, 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, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. 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 Henderson Mid Cap Value Portfolio (formerly, 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, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016. 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.

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 average 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 12% below the average total expenses of their respective Broadridge Expense Group peers and 20% below the average total expenses for their Broadridge Expense Universes; (3) management fees for the Funds, on average, were 11% below the average management fees for their Expense Groups and 13% below the average 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 average total expenses for its Broadridge Expense Group peers and to average 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) Janus mutual fund investors enjoy reasonable fees relative to the fees charged to Janus institutional and subadvised fund investors; and (4) in the majority of cases, the Funds receive proportionally better pricing than the industry in relation to Janus institutional and subadvised accounts.

The Trustees considered the fees for each Fund for its fiscal year ended in 2015, 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 Henderson Flexible Bond Fund (formerly, Janus Flexible Bond Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Global Bond Fund (formerly, Janus Global Bond Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average 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 Henderson Global Unconstrained Bond Fund (formerly, Janus Global Unconstrained Bond Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average 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 Henderson High-Yield Fund (formerly, Janus High-Yield Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Multi-Sector Income Fund (formerly, Janus Multi-Sector Income Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, 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 Henderson Real Return Fund (formerly, Janus Real Return Fund), the Trustees noted that, although the Fund's total expenses were equal to or exceeded the peer group average 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 Henderson Short-Term Bond Fund (formerly, Janus Short-Term Bond Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Government Money Market Fund (formerly, Janus Government Money Market Fund), the Trustees noted that the Fund's total expenses exceeded the peer group average for both share classes. The Trustees considered that management fees for this Fund are higher than the peer group average 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 Henderson Money Market Fund (formerly, Janus Money Market Fund), the Trustees noted that the Fund's total expenses were below the peer group average 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 Henderson Global Allocation Fund – Conservative (formerly, Janus Global Allocation Fund – Conservative), the Trustees noted that, although the Fund's total expenses exceeded the peer group median 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 Henderson Global Allocation Fund – Growth (formerly, Janus Global Allocation Fund – Growth), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Allocation Fund – Moderate (formerly, Janus Global Allocation Fund – Moderate), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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.

Alternative Fund

- For Janus Henderson Diversified Alternatives Fund (formerly, Janus Diversified Alternatives Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

Value Funds

- For Janus Henderson International Value Fund (formerly, Perkins International Value Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Global Value Fund (formerly, Perkins Global Value Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Large Cap Value Fund (formerly, Perkins Large Cap Value Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Mid Cap Value Fund (formerly, Perkins Mid Cap Value Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Select Value Fund (formerly, Perkins Select Value Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Small Cap Value Fund (formerly, Perkins Small Cap Value Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Value Plus Income Fund (formerly, Perkins Value Plus Income Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

Mathematical Funds

- For Janus Henderson Emerging Markets Managed Volatility Fund (formerly, INTECH Emerging Markets Managed Volatility Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average 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 Henderson Global Income Managed Volatility Fund (formerly, INTECH Global Income Managed Volatility Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson International Managed Volatility Fund (formerly, INTECH International Managed Volatility Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average 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 Henderson U.S. Managed Volatility Fund (formerly, INTECH U.S. Managed Volatility Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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.

Growth and Core Funds

- For Janus Henderson Balanced Fund (formerly, Janus Balanced Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Contrarian Fund (formerly, Janus Contrarian Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Enterprise Fund (formerly, Janus Enterprise Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Forty Fund (formerly, Janus Forty Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Growth and Income Fund (formerly, Janus Growth and Income Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Research Fund (formerly, Janus Research Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable.
- For Janus Henderson Triton Fund (formerly, Janus Triton Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Venture Fund (formerly, Janus Venture Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Adaptive Global Allocation Fund (formerly, Janus Adaptive Global Allocation Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group median 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 Henderson Asia Equity Fund (formerly, Janus Asia Equity Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Global Life Sciences Fund (formerly, Janus Global Life Sciences Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Real Estate Fund (formerly, Janus Global Real Estate Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Global Research Fund (formerly, Janus Global Research Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Select Fund (formerly, Janus Global Select Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Technology Fund (formerly, Janus Global Technology Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Overseas Fund (formerly, Janus Overseas Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.

Janus Aspen Series

- For Janus Henderson Balanced Portfolio (formerly, Janus Aspen Balanced Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Enterprise Portfolio (formerly, Janus Aspen Enterprise Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Flexible Bond Portfolio (formerly, Janus Aspen Flexible Bond Portfolio), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Forty Portfolio (formerly, Janus Aspen Forty Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Global Allocation Portfolio – Moderate (formerly, Janus Aspen Global Allocation Portfolio – Moderate), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson Global Research Portfolio (formerly, Janus Aspen Global Research Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Global Technology Portfolio (formerly, Janus Aspen Global Technology Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Global Unconstrained Bond Portfolio (formerly, Janus Aspen Global Unconstrained Bond Portfolio), the Trustees noted that, although the Fund's total expenses exceeded the peer group average 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 Henderson U.S. Low Volatility Portfolio (formerly, Janus Aspen INTECH U.S. Low Volatility Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for its sole share class.
- For Janus Henderson Research Portfolio (formerly, 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 Henderson Overseas Portfolio (formerly, Janus Aspen Overseas Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Mid Cap Value Portfolio (formerly, Janus Aspen Perkins Mid Cap Value Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average 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 their independent fee consultant's analysis of economies of scale in 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 91% of these Funds have contractual management fees (gross of waivers) below their Broadridge expense group averages and, overall, 83% 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 past 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.

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, 2017. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus Henderson 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.

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 Henderson VIT Forty Portfolio
Shareholder Meeting (unaudited)

Special meetings of shareholders were held on April 6, 2017 and adjourned and reconvened on April 18, 2017 (together, the "meeting"). At the meeting, the following matters were voted on and approved by shareholders. Each vote reported represents one dollar of net asset value held on the record date for the meeting. The results of the meeting are noted below.

Proposals

1. For all Portfolios, to approve a new investment advisory agreement between the Trust, on behalf of the Portfolio, and Janus Capital Management LLC.

	Number of Votes ($)				
Record Date Votes ($)	*Affirmative*	*Against*	*Abstain*	*BNV*	*Total*
707,943,698.351	556,600,169.135	27,158,670.792	45,622,739.881	(0.017)	629,381,579.790

Percentage of Total Outstanding Votes (%)					Percentage Voted (%)				
Affirmative	*Against*	*Abstain*	*BNV*	*Total*	*Affirmative*	*Against*	*Abstain*	*BNV*	*Total*
78.622	3.836	6.444	0.000	88.903	88.436	4.315	7.249	0.000	100.000

4. To elect an additional Trustee to the Board of Trustees of the Trust. - Diane L. Wallace.

	Number of Votes ($)				
Record Date Votes ($)	*Affirmative*	*Against*	*Abstain*	*BNV*	*Total*
7,198,647,378.476	6,547,141,899.530	651,505,478.947	0.000	0.000	7,198,647,378.476

Percentage of Total Outstanding Votes (%)					Percentage Voted (%)				
Affirmative	*Against*	*Abstain*	*BNV*	*Total*	*Affirmative*	*Against*	*Abstain*	*BNV*	*Total*
80.347	7.995	0.000	0.000	88.343	90.950	9.050	0.000	0.000	100.000

Alan A. Brown, William D. Cvengros, Raudline Etienne, William F. McCalpin, Gary A. Poliner, James T. Rothe, William D. Stewart and Linda S. Wolf continue to serve as Trustees following the meeting.

5. For all Portfolios, except Global Unconstrained Bond Portfolio, to approve a proposal that would authorize the Adviser to enter into and materially amend sub-advisory agreements in the future with wholly-owned subadvisers and unaffiliated sub-advisers, with the approval of the Board of Trustees of the Trust, but without obtaining additional shareholder approval.

	Number of Votes ($)				
Record Date Votes ($)	*Affirmative*	*Against*	*Abstain*	*BNV*	*Total*
707,943,698.351	481,385,104.460	82,767,258.705	65,229,216.623	0.003	629,381,579.790

Percentage of Total Outstanding Votes (%)					Percentage Voted (%)				
Affirmative	*Against*	*Abstain*	*BNV*	*Total*	*Affirmative*	*Against*	*Abstain*	*BNV*	*Total*
67.998	11.691	9.214	0.000	88.903	76.485	13.151	10.364	0.000	100.000

Knowledge. Shared

At Janus Henderson, we believe in the sharing of expert insight for better investment and business decisions. We call this ethos Knowledge. Shared.

Learn more by visiting janushenderson.com.

Janus Henderson
INVESTORS

This report is submitted for the general information of shareholders of the Portfolio. It is not an offer or solicitation for the Portfolio and is not authorized for distribution to prospective investors unless preceded or accompanied by an effective prospectus.

Portfolios distributed by Janus Henderson Distributors

109-24-81115 08-17

PIMCO

Semiannual Report
June 30, 2017

PIMCO Variable Insurance Trust

Share Classes

- Institutional
- Administrative
- Advisor

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

A company of Allianz

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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, 2017. 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.

Highlights of the financial markets during the six-month fiscal reporting period include:

- Through early 2017, the robust risk sentiment that marked the post-U.S. election period broadly continued, though there were some signs of moderation towards the end of March. Early challenges in President Donald Trump's policy agenda left some investors less optimistic about the potential for other highly anticipated agenda items such as tax reform and infrastructure spending. Still, solid fundamental data, relatively easy financial conditions, and optimism among businesses and consumers helped encourage positive investor sentiment. This environment provided an opportunity for the Federal Reserve ("Fed") to continue on its path towards policy normalization, and led the Fed to raise its key lending rate, the Federal Funds Rate, again in March by 0.25% to a range of 0.75% to 1.00%.
- Geopolitics, including elections in several countries as well as political controversy in both the U.S. and Brazil, dominated headlines and contributed to brief periods of market volatility throughout the last quarter of the reporting period. In the U.S., the Fed raised the Federal Funds Rate once again in June by 0.25% to a range of 1.00% to 1.25%, and unveiled details of its plan to gradually unwind its balance sheet, contributing to a flattening yield curve. A perceived hawkish shift in tone from other major central banks, including the European Central Bank, the Bank of England, and the Bank of Canada, spurred most developed market yields to rise even as longer-term interest rates actually fell in the U.S. The fundamental economic backdrop remained largely intact and the broader risk rally continued as equities marched higher, credit spreads tightened, and emerging market ("EM") assets strengthened.
- U.S. Treasuries, as represented by the Bloomberg Barclays U.S. Treasury Index, returned 1.87% for the reporting period. Yields rose at the short-end of the U.S. Treasury yield curve through three-year maturities, but declined across the longer-term portion of U.S. Treasury yield curve as the Fed continued its tightening monetary policy. The benchmark ten-year U.S. Treasury note yielded 2.31% at the end of the reporting period, down from 2.45% on December 31, 2016. The Bloomberg Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 2.27% for the reporting period.
- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Bloomberg Barclays U.S. TIPS Index, returned 0.85% over the reporting period. The upward pressure on U.S. real interest rates experienced after the U.S. election moderated during the first part of 2017, as questions arose about the feasibility and timing of the new administration's proposed policies. Real yields in the U.S. resumed their upward trajectory in the last quarter of the reporting period, particularly in June, as the Fed raised rates for the fourth time in this cycle and announced detailed plans to reduce its balance sheet by tapering reinvestments. Inflation expectations dipped lower over the period on the back of persistent oil weakness and three consecutive soft Consumer Price Index ("CPI") releases during the second quarter.
- Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, declined 5.26% over the reporting period. Within energy, oil prices dipped lower as production out of non-OPEC countries increased, elevating uncertainty that OPEC may succeed in rebalancing the oil market. Natural gas saw pressure from a warm U.S. winter; and continued to underperform in the second quarter of the reporting period due to unfavorable weather and higher U.S. inventories. Within precious metals, gold rallied on lower real yields over the first quarter of the reporting period, but ended slightly down driven by higher U.S. real yields at the end of the reporting period. Within agriculture, wheat outperformed on poor crop quality and production uncertainty.

- Agency mortgage-backed securities ("MBS"), as represented by the Bloomberg Barclays U.S. MBS Fixed Rate Index, returned 1.35% over the reporting period and underperformed like-duration U.S. Treasuries amid headwinds from heavy supply and concerns regarding the unwinding of the Fed's balance sheet. Non-Agency MBS prices were higher and spreads tightened, as the sector continued to benefit from favorable technicals and stable fundamentals.
- U.S. investment grade credit, as represented by the Bloomberg Barclays U.S. Credit Index, returned 3.68% over the reporting period, alongside falling credit yields, a relatively stable global growth environment, low volatility and strength in equity markets. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index (USD Hedged), returned 5.02% over the reporting period. Performance was strong and reflected meaningfully less dispersion across sectors, given the improving stability of commodities.
- EM external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 6.20% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), returned 10.36% over the reporting period. The economic slowdown in China continued, though policymakers have placed a premium on near-term stability ahead of the 19th National Congress of the Communist Party of China scheduled to take place this autumn, effectively reducing the rate of depreciation for the Chinese Yuan. EM currencies broadly appreciated against the U.S. dollar, remaining resilient in the face of lower commodity prices and more hawkish rhetoric from developed market central banks.
- Global equity markets generally posted positive returns on strong investor risk appetite amid a period marked by low economic volatility and strong corporate earnings growth despite geopolitical uncertainty during the reporting period. U.S. equities, as represented by the S&P 500 Index, returned 9.34% over the reporting period. Developed market equities outside the US, as represented by the MSCI EAFE Net Dividend Index (USD Hedged), returned 8.27% and the MSCI EAFE Net Dividend Index (USD Unhedged), returned 13.81% over the reporting period. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 18.43% over the same period.

Thank you again, for the trust you place 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
Chairman of the Board
PIMCO Variable Insurance Trust

August 22, 2017

Past performance is no guarantee of future results. Unless otherwise noted, index returns reflect the reinvestment of income distributions 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 that includes 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 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 at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with a rising interest rate environment. This is especially true as the Fed ended its quantitative easing program in October 2014 and has begun, and may continue, to raise interest rates. To the extent the Fed continues to raise interest rates, there is a risk that rates across the financial system may rise. 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. Changes in regulation relating to a mutual fund's use of derivatives and related instruments could potentially limit or impact the Portfolio's ability to invest in derivatives, limit the Portfolio's ability to employ certain strategies that use derivatives and/or adversely affect the value or performance of derivatives and the Portfolio. 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 may vary by share class based on each class's expense ratios. The Portfolio measures its performance against at least one 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. There is no assurance that the Portfolio, even if the Portfolio has experienced high or unusual performance for one or more periods, will experience similar levels of performance in the future. High performance is defined as a significant increase in either 1) the Portfolio's total return in excess of that of the Portfolio's benchmark between reporting periods or 2) the Portfolio's total return in excess of the Portfolio's historical returns between reporting periods. Unusual performance is defined as a significant change in the Portfolio's performance as compared to one or more previous reporting periods.

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	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.

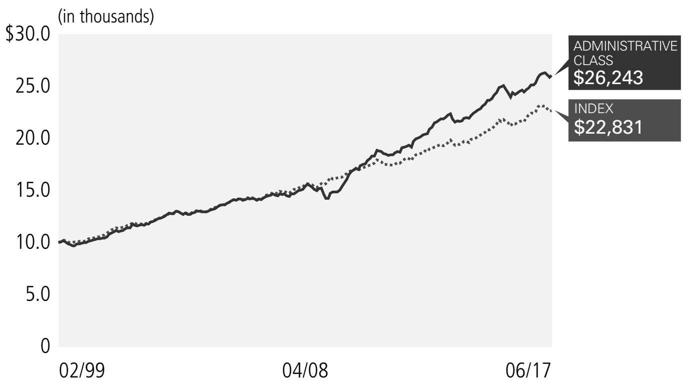
PIMCO has adopted written proxy voting policies and procedures ("Proxy Policy") as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. The Proxy Policy has been adopted by the Trust as the policies and procedures that PIMCO will use when voting proxies on behalf of the Portfolio. 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 www.pimco.com/pvit, and on the Securities and Exchange Commission's ("SEC") website at www.sec.gov.

The Trust files a complete schedule of the Portfolio's holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. A copy of the Portfolio'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. A copy of the Portfolio's Form N-Q is also available without charge, upon request, by calling the Trust at (888) 87-PIMCO and on the Portfolio's website at www.pimco.com/pvit. 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 Foreign Bond Portfolio (U.S. Dollar-Hedged)

Cumulative Returns Through June 30, 2017



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Geographic Breakdown as of 06/30/2017†§

United States‡	31.2%
Japan	13.2%
Denmark	10.7%
United Kingdom	9.2%
Sweden	6.0%
Spain	3.8%
Canada	3.8%
Cayman Islands	3.4%
Netherlands	3.3%
France	3.2%
Italy	2.3%
Slovenia	1.5%
Switzerland	1.0%
Other	7.4%

† % of Investments, at value.

§ Geographic Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.

‡ Includes Central Funds Used for Cash Management Purposes.

Average Annual Total Return for the period ended June 30, 2017

		6 Months*	1 Year	5 Years	10 Years	Inception≈
	PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Institutional Class	0.84%	1.74%	5.31%	6.31%	5.82%
—	PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class	0.77%	1.58%	5.15%	6.15%	5.38%
	PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Advisor Class	0.72%	1.48%	—	—	4.57%
·····	Bloomberg Barclays Global Aggregate ex-USD (USD Hedged) Index±	0.65%	(0.71)%	4.04%	4.47%	4.60%♦

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.

± Bloomberg Barclays Global Aggregate ex-USD (USD Hedged) Index provides a broad-based measure of the global investment-grade fixed income markets. The major components of this index are the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds and Canadian Government 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. Differences in the Portfolio's performance versus the index and related attribution information with respect to particular categories of securities or individual positions may be attributable, in part, to differences in the pricing methodologies used by the Portfolio and the index. For performance current to the most recent month-end, visit www.pimco.com/pvit or call (888) 87-PIMCO.

The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented, is 0.78% for Institutional Class shares, 0.93% for Administrative Class shares, and 1.03% for Advisor Class shares. Details regarding any Portfolio's operating expenses can be found in the Portfolio's prospectus.

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 strategies may change from time to time. Please refer to the Portfolio's current prospectus for more information regarding the Portfolio's strategy.

Portfolio Insights

The following affected performance during the reporting period:

» Holdings of non-agency mortgage-backed securities (MBS) contributed to relative performance, as total returns were positive.

» Exposure to non-investment-grade corporate bond spread duration contributed to relative performance, as spreads narrowed.

» Long positioning in the Mexican peso contributed to relative performance, as the peso appreciated versus the U.S. dollar.

» Underweight exposure to investment grade corporate bond spread duration detracted from relative performance, as spreads narrowed.

» Exposure to duration in Brazil detracted from performance, as yields rose.

» Short positioning in the Singapore dollar detracted from relative performance, as the Singapore dollar appreciated against the U.S. dollar.

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, 2017 to June 30, 2017 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 row 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 (01/01/17)	Ending Account Value (06/30/17)	Expenses Paid During Period*	Beginning Account Value (01/01/17)	Ending Account Value (06/30/17)	Expenses Paid During Period*	Net Annualized Expense Ratio**
Institutional Class	$ 1,000.00	$ 1,008.40	$ 3.93	$ 1,000.00	$ 1,020.88	$ 3.96	0.79%
Administrative Class	1,000.00	1,007.70	4.68	1,000.00	1,020.13	4.71	0.94
Advisor Class	1,000.00	1,007.20	5.18	1,000.00	1,019.64	5.21	1.04

* Expenses Paid During Period are equal to the net annualized expense ratio for the class, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.

** Net Annualized Expense Ratio is reflective of any applicable contractual fee waivers and/or expense reimbursements or voluntary fee waivers. Details regarding fee waivers, if any, can be found in Note 9, Fees and Expenses, 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	Investment Operations: Net Investment Income (Loss)[(a)]	Investment Operations: Net Realized/ Unrealized Gain (Loss)	Investment Operations: Total	Less Distributions[(b)]: From Net Investment Income	Less Distributions[(b)]: From Net Realized Capital Gain (Loss)	Less Distributions[(b)]: Tax Basis Return of Capital	Less Distributions[(b)]: Total[(a)]
Institutional Class								
01/01/2017 - 06/30/2017+	$ 11.02	$ 0.06	$ 0.03	$ 0.09	$ (0.04)	$ 0.00	$ 0.00	$ (0.04)
12/31/2016	10.54	0.16	0.54	0.70	(0.18)	(0.04)	0.00	(0.22)
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)
Administrative Class								
01/01/2017 - 06/30/2017+	11.02	0.06	0.02	0.08	(0.03)	0.00	0.00	(0.03)
12/31/2016	10.54	0.14	0.54	0.68	(0.16)	(0.04)	0.00	(0.20)
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)
Advisor Class								
01/01/2017- 06/30/2017+	11.02	0.05	0.03	0.08	(0.03)	0.00	0.00	(0.03)
12/31/2016	10.54	0.13	0.54	0.67	(0.15)	(0.04)	0.00	(0.19)
12/31/2015	10.90	0.10	(0.08)	0.02	(0.33)	(0.05)	0.00	(0.38)
04/30/2014 - 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, Distributions to Shareholders, in the Notes to Financial Statements for more information.

		Ratios/Supplemental Data							
			Ratios to Average Net Assets						
Net Asset Value End of Year or Period	Total Return	Net Assets End of Year or Period (000s)	Expenses	Expenses Excluding Waivers	Expenses Excluding Interest Expense	Expenses Excluding Interest Expense and Waivers	Net Investment Income (Loss)	Portfolio Turnover Rate
$ 11.07	0.84%	$ 5,790	0.79%*	0.79%*	0.75%*	0.75%*	1.18%*	87%
11.02	6.63	5,045	0.78	0.78	0.75	0.75	1.46	330
10.54	0.44	3,001	0.75	0.75	0.75	0.75	1.15	302
10.90	11.32	879	0.76	0.76	0.75	0.75	1.99	176
10.05	0.65	22	0.77	0.77	0.75	0.75	2.18	127
10.80	11.00	21	0.79	0.79	0.75	0.75	2.54	356
11.07	0.77	68,557	0.94*	0.94*	0.90*	0.90*	1.02*	87
11.02	6.48	64,537	0.93	0.93	0.90	0.90	1.31	330
10.54	0.29	73,278	0.90	0.90	0.90	0.90	0.90	302
10.90	11.16	89,343	0.91	0.91	0.90	0.90	1.73	176
10.05	0.50	66,176	0.92	0.92	0.90	0.90	2.03	127
10.80	10.85	78,497	0.94	0.94	0.90	0.90	2.40	356
11.07	0.72	386,292	1.04*	1.04*	1.00*	1.00*	0.92*	87
11.02	6.37	341,567	1.03	1.03	1.00	1.00	1.21	330
10.54	0.19	221,379	1.00	1.00	1.00	1.00	0.90	302
10.90	7.31	69,716	1.01*	1.01*	1.00*	0.75*	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, 2017
Assets:	
Investments, at value	
Investments in securities*	$ 501,973
Investments in Affiliates	9,041
Financial Derivative Instruments	
Exchange-traded or centrally cleared	952
Over the counter	6,513
Cash	7
Deposits with counterparty	6,220
Foreign currency, at value	2,382
Receivable for investments sold	134,509
Receivable for TBA investments sold	27,690
Receivable for Portfolio shares sold	404
Interest and/or dividends receivable	2,649
Dividends receivable from Affiliates	6
Total Assets	692,346
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for reverse repurchase agreements	$ 9,865
Payable for sale-buyback transactions	10,957
Financial Derivative Instruments	
Exchange-traded or centrally cleared	1,582
Over the counter	7,169
Payable for investments purchased	151,675
Payable for investments in Affiliates purchased	6
Payable for TBA investments purchased	49,519
Deposits from counterparty	370
Payable for Portfolio shares redeemed	166
Accrued investment advisory fees	101
Accrued supervisory and administrative fees	201
Accrued distribution fees	84
Accrued servicing fees	9
Other liabilities	3
Total Liabilities	231,707
Net Assets	$ 460,639
Net Assets Consist of:	
Paid in capital	$ 447,340
Undistributed (overdistributed) net investment income	10,808
Accumulated undistributed net realized gain (loss)	182
Net unrealized appreciation (depreciation)	2,309
Net Assets	$ 460,639
Net Assets:	
Institutional Class	$ 5,790
Administrative Class	68,557
Advisor Class	386,292
Shares Issued and Outstanding:	
Institutional Class	523
Administrative Class	6,193
Advisor Class	34,899
Net Asset Value Per Share Outstanding:	
Institutional Class	$ 11.07
Administrative Class	11.07
Advisor Class	11.07
Cost of investments in securities	$ 496,886
Cost of investments in Affiliates	$ 9,041
Cost of foreign currency held	$ 2,389
Cost or premiums of financial derivative instruments, net	$ (417)
* Includes repurchase agreements of:	$ 1,732

See Accompanying Notes

Statement of Operations PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands)	Six Months Ended June 30, 2017 (Unaudited)
Investment Income:	
Interest, net of foreign taxes*	$ 4,194
Dividends	1
Dividends from Investments in Affiliates	55
Total Income	4,250
Expenses:	
Investment advisory fees	541
Supervisory and administrative fees	1,083
Servicing fees - Administrative Class	50
Distribution and/or servicing fees - Advisor Class	451
Trustee fees	6
Interest expense	78
Miscellaneous expense	1
Total Expenses	2,210
Net Investment Income (Loss)	2,040
Net Realized Gain (Loss):	
Investments in securities	(9,753)
Investments in Affiliates	(2)
Exchange-traded or centrally cleared financial derivative instruments	5,501
Over the counter financial derivative instruments	6,553
Foreign currency	3,775
Net Realized Gain (Loss)	6,074
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	27,158
Exchange-traded or centrally cleared financial derivative instruments	(7,703)
Over the counter financial derivative instruments	(15,502)
Foreign currency assets and liabilities	(8,788)
Net Change in Unrealized Appreciation (Depreciation)	(4,835)
Net Increase (Decrease) in Net Assets Resulting from Operations	$ 3,279
* Foreign tax withholdings	$ 1

Statements of Changes in Net Assets PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands†)	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Increase (Decrease) in Net Assets from:		
Operations:		
Net investment income (loss)	$ 2,040	$ 4,413
Net realized gain (loss)	6,074	1,517
Net change in unrealized appreciation (depreciation)	(4,835)	14,710
Net Increase (Decrease) in Net Assets Resulting from Operations	3,279	20,640
Distributions to Shareholders:		
From net investment income		
Institutional Class	(21)	(69)
Administrative Class	(211)	(958)
Advisor Class	(975)	(4,181)
From net realized capital gains		
Institutional Class	0	(18)
Administrative Class	0	(242)
Advisor Class	0	(1,256)
Tax basis return of capital		
Institutional Class	0	0
Administrative Class	0	0
Advisor Class	0	0
Total Distributions[(a)]	(1,207)	(6,724)
Portfolio Share Transactions:		
Net increase (decrease) resulting from Portfolio share transactions**	47,418	99,575
Total Increase (Decrease) in Net Assets	49,490	113,491
Net Assets:		
Beginning of period	411,149	297,658
End of period*	$ 460,639	$ 411,149
* Including undistributed (overdistributed) net investment income of:	$ 10,808	$ 9,975

† A zero balance may reflect actual amounts rounding to less than one thousand.
** See Note 13, Shares of Beneficial Interest, 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 is determined at the end of the fiscal year. See Note 2, Distributions to Shareholders, in the Notes to Financial Statements for more information.

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 108.9%			
AUSTRALIA 0.1%			
CORPORATE BONDS & NOTES 0.1%			
Sydney Airport Finance Co. Pty. Ltd.			
3.900% due 03/22/2023		$ 300	$ 312
SOVEREIGN ISSUES 0.0%			
New South Wales Treasury Corp.			
2.750% due 11/20/2025 (f)	AUD	127	111
Total Australia (Cost $445)			**423**
BELGIUM 0.4%			
CORPORATE BONDS & NOTES 0.4%			
KBC Bank NV			
8.000% due 01/25/2023		$ 1,800	1,856
Total Belgium (Cost $1,854)			**1,856**
BRAZIL 0.7%			
CORPORATE BONDS & NOTES 0.7%			
Petrobras Global Finance BV			
6.125% due 01/17/2022		$ 300	311
7.375% due 01/17/2027		1,200	1,273
8.375% due 05/23/2021		1,300	1,458
Total Brazil (Cost $2,883)			**3,042**
CANADA 4.3%			
CORPORATE BONDS & NOTES 1.6%			
Bank of Nova Scotia			
1.875% due 04/26/2021		$ 1,200	1,189
Enbridge, Inc.			
1.946% due 06/15/2020		400	400
Royal Bank of Canada			
2.200% due 09/23/2019		400	402
2.300% due 03/22/2021		800	803
Toronto-Dominion Bank			
1.739% due 07/02/2019		500	502
2.250% due 03/15/2021		800	799
2.500% due 01/18/2023		2,000	2,015
TransCanada PipeLines Ltd.			
3.800% due 10/01/2020		1,000	1,050
			7,160
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.2%			
Canadian Mortgage Pools			
0.955% due 06/01/2020	CAD	226	174
1.155% due 07/01/2020		610	471
1.155% due 08/01/2020		236	183
			828
SOVEREIGN ISSUES 2.5%			
Canada Government International Bond			
1.500% due 12/01/2044 (f)		451	429
Province of Alberta			
1.250% due 06/01/2020		1,100	841
2.350% due 06/01/2025		1,100	848
Province of British Columbia			
2.300% due 06/18/2026		200	154
Province of Ontario			
2.600% due 06/02/2025		9,900	7,800
3.500% due 06/02/2024		600	501
6.200% due 06/02/2031		100	108
Province of Quebec			
3.000% due 09/01/2023		1,100	894
			11,575
Total Canada (Cost $19,270)			**19,563**

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
CAYMAN ISLANDS 3.7%			
ASSET-BACKED SECURITIES 3.6%			
Avery Point CLO Ltd.			
2.278% due 01/18/2025		$ 1,600	$ 1,599
Carlyle Global Market Strategies CLO Ltd.			
2.298% due 10/16/2025		2,200	2,203
Flagship Ltd.			
2.276% due 01/20/2026		2,200	2,201
Gallatin CLO Ltd.			
2.428% due 07/15/2023		65	65
Madison Park Funding Ltd.			
1.420% due 02/26/2021		674	674
NewMark Capital Funding CLO Ltd.			
2.372% due 06/30/2026		1,100	1,101
Oaktree CLO Ltd.			
2.376% due 10/20/2026		2,100	2,104
Octagon Investment Partners Ltd.			
2.258% due 04/15/2026		1,100	1,099
OHA Credit Partners Ltd.			
2.286% due 07/20/2026		2,200	2,206
Staniford Street CLO Ltd.			
2.426% due 06/15/2025		1,100	1,100
Symphony CLO LP			
2.255% due 01/09/2023		310	310
TICP CLO Ltd.			
2.347% due 04/26/2026		2,100	2,103
			16,765
CORPORATE BONDS & NOTES 0.1%			
KSA Sukuk Ltd.			
2.894% due 04/20/2022		500	501
Total Cayman Islands (Cost $17,247)			**17,266**
DENMARK 11.9%			
CORPORATE BONDS & NOTES 11.9%			
BRFkredit A/S			
2.000% due 10/01/2047	DKK	7,786	1,176
2.500% due 10/01/2047		4,287	671
4.000% due 01/01/2018		7,100	1,115
Nordea Kredit Realkreditaktieselskab			
2.000% due 10/01/2047		28,810	4,358
2.500% due 10/01/2037		1,549	247
Nykredit Realkredit A/S			
1.000% due 07/01/2017		12,000	1,843
1.000% due 10/01/2017		62,500	9,648
2.000% due 10/01/2037		4,450	698
2.000% due 10/01/2047		20,315	3,052
2.500% due 10/01/2037		7,604	1,221
2.500% due 10/01/2047		27,507	4,289
Realkredit Danmark A/S			
1.000% due 01/01/2018		19,100	2,957
1.000% due 04/01/2018		84,600	13,141
2.000% due 04/01/2018		16,200	2,534
2.000% due 10/01/2037		4,647	726
2.000% due 10/01/2047		21,745	3,271
2.500% due 10/01/2037		9,090	1,451
2.500% due 10/01/2047		15,085	2,356
Total Denmark (Cost $52,611)			**54,754**
FRANCE 3.5%			
CORPORATE BONDS & NOTES 1.3%			
Credit Agricole S.A.			
8.125% due 09/19/2033		$ 1,200	1,279
Dexia Credit Local S.A.			
1.875% due 09/15/2021		2,000	1,952
2.250% due 02/18/2020		2,600	2,606
			5,837

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SOVEREIGN ISSUES 2.2%			
France Government International Bond			
1.250% due 05/25/2036	EUR	300	$ 330
2.000% due 05/25/2048		7,400	8,746
3.250% due 05/25/2045 (i)		800	1,215
			10,291
Total France (Cost $15,651)			**16,128**
GERMANY 0.7%			
CORPORATE BONDS & NOTES 0.7%			
Deutsche Bank AG			
4.250% due 10/14/2021		$ 1,800	1,886
Deutsche Pfandbriefbank AG			
1.625% due 08/30/2019		600	594
Landwirtschaftliche Rentenbank			
4.750% due 03/12/2019	NZD	1,200	912
Total Germany (Cost $3,411)			**3,392**
GREECE 0.2%			
CORPORATE BONDS & NOTES 0.1%			
Hellenic Railways Organization S.A.			
5.014% due 12/27/2017	EUR	300	339
SOVEREIGN ISSUES 0.1%			
Republic of Greece Government International Bond			
3.800% due 08/08/2017	JPY	40,000	354
4.500% due 07/03/2017		30,000	268
			622
Total Greece (Cost $911)			**961**
GUERNSEY, CHANNEL ISLANDS 0.2%			
CORPORATE BONDS & NOTES 0.2%			
Credit Suisse Group Funding Guernsey Ltd.			
3.800% due 06/09/2023		$ 800	826
Total Guernsey, Channel Islands (Cost $798)			**826**
IRELAND 1.0%			
ASSET-BACKED SECURITIES 0.2%			
CVC Cordatus Loan Fund Ltd.			
0.780% due 01/24/2028	EUR	800	915
CORPORATE BONDS & NOTES 0.6%			
AerCap Ireland Capital DAC			
3.750% due 05/15/2019		$ 1,500	1,541
4.625% due 10/30/2020		800	851
Iberdrola Finance Ireland Ltd.			
5.000% due 09/11/2019		400	424
			2,816
SOVEREIGN ISSUES 0.2%			
Ireland Government International Bond			
5.400% due 03/13/2025	EUR	700	1,086
Total Ireland (Cost $4,666)			**4,817**
ITALY 2.6%			
CORPORATE BONDS & NOTES 0.4%			
Assicurazioni Generali SpA			
5.500% due 10/27/2047	EUR	300	382
Banca Carige SpA			
3.875% due 10/24/2018		1,000	1,188
Banca Monte dei Paschi di Siena SpA			
5.000% due 02/09/2056		100	118
			1,688

		PRINCIPAL AMOUNT (000S)		MARKET VALUE (000S)
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.1%				
Casa D'este Finance SRL				
0.019% due 09/15/2040	EUR	63	$	72
Claris Finance SRL				
0.102% due 10/31/2060		225		257
Giovecca Mortgages SRL				
0.268% due 04/23/2048		24		27
				356
SOVEREIGN ISSUES 2.1%				
Italy Buoni Poliennali Del Tesoro				
0.350% due 11/01/2021 (i)		2,600		2,932
2.450% due 09/01/2033 (i)		3,400		3,750
2.700% due 03/01/2047		100		102
2.800% due 03/01/2067		1,000		954
3.450% due 03/01/2048		1,000		1,164
Italy Government International Bond				
6.000% due 08/04/2028	GBP	600		965
				9,867
Total Italy (Cost $11,765)				**11,911**
JAPAN 3.3%				
CORPORATE BONDS & NOTES 0.4%				
Mitsubishi UFJ Financial Group, Inc.				
2.950% due 03/01/2021	$	400		407
Sumitomo Mitsui Financial Group, Inc.				
2.901% due 03/09/2021		1,500		1,546
				1,953
SOVEREIGN ISSUES 2.9%				
Development Bank of Japan, Inc.				
1.625% due 09/01/2021		1,200		1,167
Japan Bank for International Cooperation				
2.000% due 11/04/2021		800		787
2.500% due 06/01/2022		300		302
Japan Finance Organization for Municipalities				
2.125% due 04/13/2021		1,300		1,281
2.625% due 04/20/2022		1,100		1,102
Japan Government International Bond				
0.300% due 06/20/2046	JPY	620,000		4,774
0.500% due 09/20/2046		350,000		2,850
Tokyo Metropolitan Government				
2.000% due 05/17/2021	$	700		690
2.500% due 06/08/2022		600		603
				13,556
Total Japan (Cost $16,924)				**15,509**
KUWAIT 0.8%				
SOVEREIGN ISSUES 0.8%				
Kuwait International Government Bond				
2.750% due 03/20/2022	$	900		904
3.500% due 03/20/2027		2,800		2,866
Total Kuwait (Cost $3,668)				**3,770**
LUXEMBOURG 0.7%				
CORPORATE BONDS & NOTES 0.7%				
Commerzbank Finance & Covered Bond S.A.				
4.250% due 06/04/2018	EUR	1,650		1,958
Wind Acquisition Finance S.A.				
7.000% due 04/23/2021		1,200		1,429
Total Luxembourg (Cost $3,136)				**3,387**
MULTINATIONAL 0.2%				
CORPORATE BONDS & NOTES 0.2%				
Preferred Term Securities Ltd.				
1.667% due 06/23/2035	$	1,130	$	915
Total Multinational (Cost $820)				**915**
NETHERLANDS 3.7%				
ASSET-BACKED SECURITIES 0.7%				
Babson Euro CLO BV				
1.300% due 04/15/2027	EUR	700		803
Cadogan Square CLO BV				
0.000% due 01/17/2023		29		33
Carlyle Global Market Strategies Euro CLO Ltd.				
0.690% due 08/15/2027		1,900		2,173
Chapel BV				
0.028% due 07/17/2066		144		163
Highlander Euro CDO BV				
0.000% due 05/01/2023		59		68
Panther CDO BV				
0.044% due 10/15/2084		30		33
				3,273
CORPORATE BONDS & NOTES 3.0%				
Bank Nederlandse Gemeenten NV				
4.550% due 02/15/2019	CAD	1,800		1,455
Cooperatieve Rabobank UA				
6.875% due 03/19/2020	EUR	700		940
Enel Finance International NV				
5.125% due 10/07/2019	$	1,000		1,066
Fiat Chrysler Automobiles NV				
4.500% due 04/15/2020		400		412
ING Bank NV				
2.625% due 12/05/2022		3,600		3,633
4.125% due 11/21/2023		3,100		3,174
Mondelez International Holdings Netherlands BV				
2.000% due 10/28/2021		500		488
Stichting AK Rabobank Certificaten				
6.500% due 12/29/2049 (g)	EUR	1,000		1,353
Vonovia Finance BV				
3.200% due 10/02/2017	$	1,000		1,002
5.000% due 10/02/2023		100		106
				13,629
Total Netherlands (Cost $16,462)				**16,902**
NORWAY 0.4%				
CORPORATE BONDS & NOTES 0.3%				
DNB Bank ASA				
2.375% due 06/02/2021	$	400		398
DNB Boligkreditt A/S				
2.500% due 03/28/2022		1,100		1,109
				1,507
SOVEREIGN ISSUES 0.1%				
Norway Government International Bond				
3.750% due 05/25/2021	NOK	1,800		239
Total Norway (Cost $1,759)				**1,746**
POLAND 0.4%				
SOVEREIGN ISSUES 0.4%				
Poland Government International Bond				
2.250% due 04/25/2022	PLN	6,600		1,751
Total Poland (Cost $1,638)				**1,751**
PORTUGAL 0.1%				
CORPORATE BONDS & NOTES 0.1%				
Banco Espirito Santo S.A.				
4.000% due 01/21/2019 ^	EUR	300	$	110
4.750% due 01/15/2018 ^		200		73
Novo Banco S.A.				
5.000% due 05/14/2019		100		94
5.000% due 05/21/2019		200		188
Total Portugal (Cost $927)				**465**
QATAR 0.2%				
CORPORATE BONDS & NOTES 0.1%				
Ras Laffan Liquefied Natural Gas Co. Ltd.				
6.750% due 09/30/2019	$	400		434
SOVEREIGN ISSUES 0.1%				
Qatar Government International Bond				
4.625% due 06/02/2046		300		304
Total Qatar (Cost $729)				**738**
SAUDI ARABIA 0.9%				
SOVEREIGN ISSUES 0.9%				
Saudi Government International Bond				
2.375% due 10/26/2021	$	3,700		3,645
3.250% due 10/26/2026		400		397
Total Saudi Arabia (Cost $4,063)				**4,042**
SLOVENIA 1.7%				
SOVEREIGN ISSUES 1.7%				
Slovenia Government International Bond				
4.125% due 02/18/2019	$	3,200		3,314
4.750% due 05/10/2018		400		410
5.250% due 02/18/2024		2,450		2,811
5.500% due 10/26/2022		400		458
5.850% due 05/10/2023		500		585
Total Slovenia (Cost $7,323)				**7,578**
SOUTH KOREA 0.1%				
CORPORATE BONDS & NOTES 0.1%				
Kookmin Bank				
2.125% due 10/21/2020	$	400		396
Total South Korea (Cost $391)				**396**
SPAIN 4.3%				
CORPORATE BONDS & NOTES 1.0%				
Banco Popular Espanol S.A.				
8.250% due 04/29/2049 ^(g)	EUR	200		6
Banco Santander S.A.				
6.250% due 09/11/2021 (g)		1,100		1,304
Telefonica Emisiones S.A.U.				
5.134% due 04/27/2020	$	800		864
5.462% due 02/16/2021		100		110
5.877% due 07/15/2019		2,000		2,150
				4,434
SOVEREIGN ISSUES 3.3%				
Autonomous Community of Catalonia				
4.750% due 06/04/2018	EUR	300		356
4.900% due 09/15/2021		900		1,094
4.950% due 02/11/2020		670		821
Autonomous Community of Madrid				
4.300% due 09/15/2026		400		561
Autonomous Community of Valencia				
4.900% due 03/17/2020		600		771

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Spain Government International Bond		
1.450% due 10/31/2027 (b)	EUR 4,200	$ 4,721
1.500% due 04/30/2027	2,900	3,306
2.150% due 10/31/2025 (i)	800	978
2.900% due 10/31/2046	2,300	2,660
		15,268
Total Spain (Cost $19,472)		**19,702**

SUPRANATIONAL 0.1%

CORPORATE BONDS & NOTES 0.1%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
European Investment Bank		
0.500% due 06/21/2023	AUD 500	331
0.500% due 08/10/2023	400	257
Total Supranational (Cost $631)		**588**

SWEDEN 6.7%

CORPORATE BONDS & NOTES 6.7%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Lansforsakringar Hypotek AB		
1.250% due 09/20/2023	SEK 24,600	2,946
2.250% due 09/21/2022	17,600	2,243
Nordea Hypotek AB		
1.000% due 04/08/2022	38,900	4,692
Skandinaviska Enskilda Banken AB		
1.500% due 12/15/2021	14,000	1,730
3.000% due 06/20/2018	1,500	184
Stadshypotek AB		
1.500% due 12/15/2021	31,000	3,830
1.875% due 10/02/2019	$ 2,700	2,697
2.500% due 09/18/2019	SEK 1,000	125
2.500% due 04/05/2022	$ 300	302
4.500% due 09/21/2022	SEK 22,000	3,107
Svenska Handelsbanken AB		
2.450% due 03/30/2021	$ 2,100	2,105
Sveriges Sakerstallda Obligationer AB		
1.250% due 06/15/2022	SEK 25,000	3,045
2.000% due 06/17/2026	6,000	736
Swedbank AB		
2.200% due 03/04/2020	$ 300	300
Swedbank Hypotek AB		
1.000% due 09/15/2021	SEK 3,900	473
1.000% due 06/15/2022	16,800	2,023
3.750% due 12/20/2017	1,100	133
Total Sweden (Cost $29,613)		**30,671**

SWITZERLAND 1.1%

CORPORATE BONDS & NOTES 1.0%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Credit Suisse AG		
6.500% due 08/08/2023	$ 200	225
UBS AG		
1.799% due 06/08/2020	1,400	1,403
2.200% due 06/08/2020	900	901
4.750% due 05/22/2023	2,000	2,043
		4,572

SOVEREIGN ISSUES 0.1%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Switzerland Government International Bond		
3.500% due 04/08/2033	CHF 300	473
Total Switzerland (Cost $4,983)		**5,045**

UNITED ARAB EMIRATES 0.1%

CORPORATE BONDS & NOTES 0.1%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
First Abu Dhabi Bank PJSC		
2.250% due 02/11/2020	$ 500	498
Total United Arab Emirates (Cost $495)		**498**

UNITED KINGDOM 9.5%

CORPORATE BONDS & NOTES 4.8%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Barclays Bank PLC		
7.625% due 11/21/2022	$ 3,300	$ 3,781
7.750% due 04/10/2023	500	522
Barclays PLC		
3.295% due 08/10/2021	600	630
3.650% due 03/16/2025	600	599
6.500% due 09/15/2019 (g)	EUR 200	237
British Telecommunications PLC		
2.350% due 02/14/2019	$ 500	503
Co-operative Group Holdings Ltd.		
6.875% due 07/08/2020	GBP 400	595
Frontier Finance PLC		
8.000% due 03/23/2022	900	1,146
HBOS PLC		
6.750% due 05/21/2018	$ 1,100	1,143
Imperial Brands Finance PLC		
2.950% due 07/21/2020	500	509
Lloyds Bank PLC		
5.125% due 03/07/2025	GBP 700	1,143
Lloyds Banking Group PLC		
7.000% due 06/27/2019 (g)	1,200	1,625
7.625% due 06/27/2023 (g)	600	867
7.875% due 06/27/2029 (g)	500	764
Nationwide Building Society		
4.125% due 03/20/2023	EUR 900	1,055
RAC Bond Co. PLC		
4.870% due 05/06/2046	GBP 300	435
Reckitt Benckiser Treasury Services PLC		
2.375% due 06/24/2022	$ 600	596
Santander UK Group Holdings PLC		
2.875% due 10/16/2020	1,700	1,728
2.875% due 08/05/2021	400	401
Smiths Group PLC		
7.200% due 05/15/2019	600	654
Tesco PLC		
5.125% due 04/10/2047	EUR 400	484
6.125% due 02/24/2022	GBP 300	449
Tesco Property Finance PLC		
5.411% due 07/13/2044	196	276
7.623% due 07/13/2039	91	153
Virgin Media Secured Finance PLC		
5.000% due 04/15/2027	500	672
Virgin Money PLC		
2.250% due 04/21/2020	700	932
		21,899

NON-AGENCY MORTGAGE-BACKED SECURITIES 1.9%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Business Mortgage Finance PLC		
0.695% due 02/15/2039	412	532
2.315% due 02/15/2041	322	411
Eurohome UK Mortgages PLC		
0.439% due 06/15/2044	495	625
Eurosail PLC		
0.449% due 06/10/2044	28	36
0.590% due 06/13/2045	11	14
1.240% due 06/13/2045	729	918
Mansard Mortgages PLC		
0.939% due 12/15/2049	198	256
Money Partners Securities PLC		
0.669% due 03/15/2040	23	30
Newgate Funding PLC		
0.453% due 12/01/2050	300	355
1.289% due 12/15/2050	307	384
Ripon Mortgages PLC		
1.172% due 08/20/2056	1,800	2,351
RMAC Securities PLC		
0.439% due 06/12/2044	538	670
Thrones PLC		
1.165% due 11/15/2049	329	429
Towd Point Mortgage Funding PLC		
1.504% due 02/20/2054	GBP 1,482	$ 1,945
		8,956

SOVEREIGN ISSUES 2.8%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
United Kingdom Gilt		
3.250% due 01/22/2044 (i)	3,800	6,327
3.500% due 01/22/2045	600	1,049
4.250% due 12/07/2040	1,200	2,268
4.250% due 12/07/2046	1,600	3,197
		12,841
Total United Kingdom (Cost $43,898)		**43,696**

UNITED STATES 32.1%

ASSET-BACKED SECURITIES 5.9%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
ACE Securities Corp. Home Equity Loan Trust		
1.356% due 07/25/2036	$ 1,616	1,184
Amortizing Residential Collateral Trust		
1.796% due 07/25/2032	1	1
1.916% due 10/25/2031	1	1
Amresco Residential Securities Corp. Mortgage Loan Trust		
2.156% due 06/25/2029	1	1
Argent Mortgage Loan Trust		
1.696% due 05/25/2035	2,266	2,050
Argent Securities, Inc. Asset-Backed Pass-Through Certificates		
1.596% due 02/25/2036	692	526
Citigroup Mortgage Loan Trust, Inc.		
1.376% due 12/25/2036	644	432
1.476% due 03/25/2036	756	649
1.476% due 06/25/2037	2,700	2,356
Countrywide Asset-Backed Certificates		
1.346% due 12/25/2036 ^	487	489
1.356% due 06/25/2035	466	374
1.356% due 03/25/2037	2,340	1,985
1.356% due 06/25/2037	611	512
1.356% due 06/25/2047 ^	483	376
1.356% due 06/25/2047	1,499	1,340
1.366% due 04/25/2047	535	521
1.506% due 07/25/2036	600	582
5.167% due 08/25/2035 ^	798	731
Countrywide Asset-Backed Certificates Trust		
2.566% due 04/25/2035	1,000	995
Credit Suisse First Boston Mortgage Securities Corp.		
1.836% due 01/25/2032	1	1
GSAMP Trust		
1.646% due 11/25/2035 ^	1,376	922
HSI Asset Securitization Corp. Trust		
1.476% due 04/25/2037	906	539
IndyMac Home Equity Mortgage Loan Asset-Backed Trust		
1.456% due 04/25/2037	683	457
Long Beach Mortgage Loan Trust		
1.776% due 10/25/2034	12	12
Morgan Stanley ABS Capital, Inc. Trust		
1.346% due 10/25/2036	183	150
Morgan Stanley Home Equity Loan Trust		
1.316% due 12/25/2036	1,151	643
1.446% due 04/25/2037	964	612
Morgan Stanley Mortgage Loan Trust		
5.919% due 09/25/2046 ^	186	93
Nomura Home Equity Loan, Inc. Home Equity Loan Trust		
1.506% due 03/25/2036	700	601
NovaStar Mortgage Funding Trust		
1.346% due 03/25/2037	873	583
Renaissance Home Equity Loan Trust		
3.766% due 12/25/2032	439	421
5.294% due 01/25/2037	649	356
5.675% due 06/25/2037 ^	1,058	539
5.731% due 11/25/2036	1,045	621

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Residential Asset Mortgage Products Trust		
1.244% due 12/25/2035	$ 521	$ 464
1.254% due 12/25/2035	1,200	917
Residential Asset Securities Corp. Trust		
1.466% due 11/25/2036	2,101	1,398
1.716% due 07/25/2032 ^	2	2
Saxon Asset Securities Trust		
2.966% due 12/25/2037	456	413
3.016% due 05/25/2031	647	582
Soundview Home Loan Trust		
1.366% due 06/25/2037	101	68
Structured Asset Investment Loan Trust		
1.346% due 07/25/2036	584	479
1.526% due 01/25/2036	1,600	1,311
		27,289
CORPORATE BONDS & NOTES 13.0%		
AIG Global Funding		
1.777% due 07/02/2020 (b)	1,000	1,002
Ally Financial, Inc.		
3.600% due 05/21/2018	1,500	1,521
8.000% due 11/01/2031	200	246
American International Group, Inc.		
3.900% due 04/01/2026	1,100	1,127
Anheuser-Busch InBev Finance, Inc.		
3.300% due 02/01/2023	500	515
Anheuser-Busch InBev Worldwide, Inc.		
4.950% due 01/15/2042	800	908
Anthem, Inc.		
2.250% due 08/15/2019	800	804
AT&T, Inc.		
1.800% due 09/04/2026	EUR 1,000	1,132
2.023% due 07/15/2021	$ 1,500	1,516
Bank of America Corp.		
6.875% due 04/25/2018	800	833
Boston Scientific Corp.		
2.850% due 05/15/2020	2,300	2,333
Cardinal Health, Inc.		
1.948% due 06/14/2019	1,300	1,302
CBOE Holdings, Inc.		
1.950% due 06/28/2019	500	500
Charter Communications Operating LLC		
3.750% due 02/15/2028 (b)	900	889
4.464% due 07/23/2022	600	640
6.384% due 10/23/2035	600	714
CIT Group, Inc.		
3.875% due 02/19/2019	300	308
Citigroup, Inc.		
2.050% due 06/07/2019	200	200
2.150% due 06/07/2019	600	606
2.650% due 10/26/2020	500	505
Citizens Bank N.A.		
1.768% due 05/26/2020	1,100	1,101
2.550% due 05/13/2021	400	401
Cleveland Electric Illuminating Co.		
8.875% due 11/15/2018	1,100	1,198
Crown Castle Towers LLC		
4.883% due 08/15/2040	1,100	1,175
D.R. Horton, Inc.		
3.750% due 03/01/2019	1,000	1,024
4.000% due 02/15/2020	1,200	1,247
Dell International LLC		
3.480% due 06/01/2019	1,400	1,433
eBay, Inc.		
2.150% due 06/05/2020	900	901
2.750% due 01/30/2023	200	198
ERAC USA Finance LLC		
2.600% due 12/01/2021	1,000	997
Fidelity National Information Services, Inc.		
0.400% due 01/15/2021 (b)	EUR 200	228
1.700% due 06/30/2022 (b)	GBP 200	259
Ford Motor Credit Co. LLC		
1.897% due 08/12/2019	$ 1,800	1,787
2.155% due 01/09/2020	700	705

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
2.943% due 01/08/2019	$ 500	$ 507
3.157% due 08/04/2020	300	306
3.200% due 01/15/2021	300	305
Forest Laboratories LLC		
5.000% due 12/15/2021	600	656
GATX Corp.		
2.500% due 03/15/2019	700	706
General Motors Financial Co., Inc.		
3.100% due 01/15/2019	1,100	1,115
Goldman Sachs Group, Inc.		
2.313% due 04/23/2020	400	407
Great Plains Energy, Inc.		
2.500% due 03/09/2020	800	808
International Lease Finance Corp.		
8.250% due 12/15/2020	500	590
JPMorgan Chase & Co.		
2.550% due 10/29/2020	100	101
Kinder Morgan, Inc.		
5.000% due 02/15/2021	400	429
Lehman Brothers Holdings, Inc.		
6.875% due 05/02/2018 ^	200	13
MetLife, Inc.		
6.817% due 08/15/2018	1,100	1,162
Metropolitan Life Global Funding		
2.000% due 04/14/2020	300	299
MUFG Americas Holdings Corp.		
3.000% due 02/10/2025	700	689
Navient Corp. CPI Linked Security		
4.431% due 01/16/2018	900	23
Navient Corp.		
4.875% due 06/17/2019	500	521
5.500% due 01/15/2019	1,700	1,774
8.000% due 03/25/2020	300	336
8.450% due 06/15/2018	160	169
New York Life Global Funding		
2.900% due 01/17/2024	1,500	1,515
Pricoa Global Funding		
2.200% due 06/03/2021	600	593
Protective Life Global Funding		
2.262% due 04/08/2020	2,200	2,199
RELX Capital, Inc.		
8.625% due 01/15/2019	300	328
Santander Holdings USA, Inc.		
2.642% due 11/24/2017	1,700	1,707
SLM Student Loan Trust		
0.840% due 03/15/2038	GBP 700	888
Smithfield Foods, Inc.		
2.700% due 01/31/2020	$ 100	101
Spectra Energy Partners LP		
1.920% due 06/05/2020	200	201
Springleaf Finance Corp.		
5.250% due 12/15/2019	300	313
6.000% due 06/01/2020	400	424
Sprint Communications, Inc.		
8.375% due 08/15/2017	400	404
Time Warner Cable LLC		
5.000% due 02/01/2020	300	320
8.250% due 04/01/2019	400	441
Verizon Communications, Inc.		
1.722% due 05/22/2020	1,100	1,101
4.125% due 03/16/2027	900	931
Volkswagen Group of America Finance LLC		
2.125% due 05/23/2019	2,100	2,103
2.450% due 11/20/2019	1,100	1,107
Wells Fargo & Co.		
2.263% due 01/24/2023	1,000	1,011
2.402% due 10/31/2023	2,000	2,037
Zimmer Biomet Holdings, Inc.		
2.700% due 04/01/2020	300	303
3.150% due 04/01/2022	900	915
		60,113
LOAN PARTICIPATIONS AND ASSIGNMENTS 0.3%		
CenturyLink, Inc.		
1.375% due 01/31/2025	900	891

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Charter Communications Operating LLC		
3.480% due 01/15/2024	$ 593	$ 596
		1,487
MUNICIPAL BONDS & NOTES 0.0%		
Pasadena Public Financing Authority, California Revenue Bonds, (BABs), Series 2010		
7.148% due 03/01/2043	100	142
NON-AGENCY MORTGAGE-BACKED SECURITIES 1.7%		
American Home Mortgage Investment Trust		
2.914% due 09/25/2045	35	35
Banc of America Alternative Loan Trust		
6.500% due 04/25/2036 ^	576	484
Banc of America Mortgage Trust		
3.439% due 02/25/2036 ^	72	67
Bear Stearns Adjustable Rate Mortgage Trust		
3.260% due 03/25/2035	33	33
3.312% due 08/25/2033	2	2
3.636% due 03/25/2035	3	3
Bear Stearns ALT-A Trust		
1.376% due 02/25/2034	54	50
3.361% due 09/25/2035	35	30
3.393% due 11/25/2035 ^	35	29
3.416% due 03/25/2036 ^	162	127
3.471% due 08/25/2036 ^	50	37
Bear Stearns Structured Products, Inc. Trust		
3.063% due 12/26/2046	34	30
Citigroup Mortgage Loan Trust, Inc.		
2.690% due 09/25/2035	6	6
Citigroup Mortgage Loan Trust, Inc. Mortgage Pass-Through Certificates		
3.127% due 09/25/2035 ^	395	351
Countrywide Alternative Loan Trust		
1.422% due 03/20/2046	75	64
1.496% due 02/25/2037	61	51
1.732% due 12/25/2035	66	60
2.159% due 11/25/2035	14	13
5.250% due 06/25/2035 ^	11	10
Countrywide Home Loan Mortgage Pass-Through Trust		
1.676% due 05/25/2035	30	25
1.856% due 03/25/2035	57	50
1.876% due 02/25/2035	7	7
3.123% due 11/25/2034	9	9
3.399% due 08/25/2034 ^	20	19
5.500% due 01/25/2035	406	411
Credit Suisse First Boston Mortgage Securities Corp.		
6.500% due 04/25/2033	1	1
Credit Suisse Mortgage Capital Mortgage-Backed Trust		
5.500% due 08/25/2036	1,895	1,821
5.863% due 02/25/2037 ^	201	93
DBUBS Mortgage Trust		
0.379% due 11/10/2046 (a)	400	4
0.927% due 11/10/2046 (a)	298	6
Deutsche ALT-A Securities, Inc.		
1.966% due 10/25/2047	1,107	930
GSR Mortgage Loan Trust		
1.546% due 12/25/2034	60	55
3.370% due 01/25/2036 ^	67	65
3.641% due 04/25/2035	303	288
HarborView Mortgage Loan Trust		
3.202% due 05/19/2033	3	3
IndyMac Mortgage Loan Trust		
1.426% due 05/25/2046	589	540
1.456% due 07/25/2035	27	24
JPMorgan Mortgage Trust		
3.258% due 07/27/2037	113	108
3.355% due 02/25/2036 ^	39	35
Mellon Residential Funding Corp. Mortgage Pass-Through Trust		
1.599% due 12/15/2030	7	7
Merrill Lynch Mortgage Investors Trust		
2.665% due 10/25/2035	10	10

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Morgan Stanley Bank of America Merrill Lynch Trust		
1.164% due 12/15/2048 (a)	$ 995	$ 45
Morgan Stanley Mortgage Loan Trust		
3.110% due 06/25/2036	43	42
Residential Accredit Loans, Inc. Trust		
1.366% due 02/25/2047	37	23
1.396% due 06/25/2046	319	141
1.426% due 04/25/2046	541	285
Structured Adjustable Rate Mortgage Loan Trust		
3.449% due 04/25/2034	6	6
Structured Asset Mortgage Investments Trust		
1.426% due 05/25/2036	14	11
1.436% due 05/25/2036	105	93
1.436% due 09/25/2047	153	137
1.676% due 05/25/2045	25	22
1.789% due 07/19/2034	2	2
1.869% due 09/19/2032	2	2
1.909% due 03/19/2034	5	5
2.232% due 08/25/2047 ^	45	42
TBW Mortgage-Backed Trust		
5.970% due 09/25/2036	189	21
Thornburg Mortgage Securities Trust		
2.970% due 06/25/2047 ^	44	40
2.970% due 06/25/2047	10	9
Wachovia Mortgage Loan Trust LLC		
3.263% due 10/20/2035 ^	141	130
WaMu Mortgage Pass-Through Certificates Trust		
1.526% due 01/25/2045	124	121
1.712% due 06/25/2046	48	46
1.732% due 02/25/2046	110	108
1.895% due 02/27/2034	5	5
2.733% due 03/25/2033	12	12
2.812% due 12/25/2036 ^	250	220
3.030% due 04/25/2035	53	53
3.033% due 03/25/2035	66	67
Washington Mutual Mortgage Pass-Through Certificates Trust		
1.672% due 07/25/2046 ^	29	20
Wells Fargo Mortgage-Backed Securities Trust		
3.153% due 03/25/2035	85	86
3.167% due 03/25/2036 ^	190	183
3.195% due 04/25/2036	6	6
3.324% due 07/25/2036 ^	51	51
		8,027

U.S. GOVERNMENT AGENCIES 6.5%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Fannie Mae		
1.336% due 03/25/2034	$ 6	5
1.366% due 08/25/2034	3	3
1.566% due 09/25/2042	18	18
1.616% due 06/25/2036	35	35
1.646% due 11/25/2040	52	52
1.666% due 11/25/2040 - 01/25/2044	322	325
1.796% due 06/25/2041	241	244
1.892% due 10/01/2044	$ 18	$ 18
2.016% due 12/25/2039	269	274
2.887% due 12/01/2034	6	6
2.951% due 11/01/2034	34	36
3.129% due 05/25/2035	13	13
3.500% due 11/01/2021	90	95
6.000% due 07/25/2044	11	12
Fannie Mae, TBA		
3.000% due 08/01/2047	9,100	9,072
3.500% due 08/01/2047	12,500	12,813
Freddie Mac		
1.345% due 01/15/2038	604	602
1.632% due 01/15/2038 (a)	604	35
1.659% due 12/15/2032	7	7
1.759% due 12/15/2037	18	18
1.892% due 10/25/2044	49	50
2.873% due 02/01/2029	3	3
3.250% due 03/01/2035	5	5
3.475% due 04/01/2035	66	69
Ginnie Mae		
0.000% due 11/20/2066	695	703
1.793% due 05/20/2066 - 06/20/2066	4,406	4,442
2.125% due 04/20/2028 - 06/20/2030	3	4
NCUA Guaranteed Notes		
1.554% due 11/05/2020	905	907
1.644% due 12/08/2020	246	247
		30,113

U.S. TREASURY OBLIGATIONS 4.7%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
U.S. Treasury Bonds		
5.250% due 02/15/2029 (m)	100	129
U.S. Treasury Inflation Protected Securities (f)		
0.125% due 01/15/2022 (m)	108	108
0.125% due 04/15/2022 (i)	8,144	8,108
0.125% due 07/15/2022 (k)(m)	1,914	1,912
0.125% due 01/15/2023 (k)(m)	2,437	2,415
0.125% due 07/15/2024 (k)(m)	154	152
0.375% due 07/15/2025 (i)(k)(m)	8,559	8,498
0.625% due 01/15/2026 (m)	51	52
2.000% due 01/15/2026 (m)	123	138
		21,512
Total United States (Cost $146,885)		**148,683**

SHORT-TERM INSTRUMENTS 13.2%

CERTIFICATES OF DEPOSIT 0.7%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Barclays Bank PLC		
1.710% due 03/16/2018	$ 2,300	2,300
1.949% due 11/06/2017	1,000	1,002
		3,302

REPURCHASE AGREEMENTS (h) 0.4%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
		$ 1,732

JAPAN TREASURY BILLS 11.2%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
(0.131)% due 07/18/2017 - 09/04/2017 (c)(d)	JPY 5,820,000	51,748

MEXICO TREASURY BILLS 0.9%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
7.017% due 11/30/2017 - 03/01/2018 (c)(d)	MXN 75,300	3,970

U.S. TREASURY BILLS 0.0%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
0.981% due 08/31/2017 (d)(e)(m)	$ 200	200
Total Short-Term Instruments (Cost $61,557)		**60,952**
Total Investments in Securities (Cost $496,886)		**501,973**

INVESTMENTS IN AFFILIATES 2.0%

SHORT-TERM INSTRUMENTS 2.0%

CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 2.0%

	SHARES	MARKET VALUE (000S)
PIMCO Short-Term Floating NAV Portfolio III	914,549	$ 9,041
Total Short-Term Instruments (Cost $9,041)		**9,041**
Total Investments in Affiliates (Cost $9,041)		**9,041**
Total Investments 110.9% (Cost $505,927)		**$ 511,014**
Financial Derivative Instruments (j)(l) (0.3)% (Cost or Premiums, net $(417))		**(1,286)**
Other Assets and Liabilities, net (10.6)%		**(49,089)**
Net Assets 100.0%		**$ 460,639**

NOTES TO SCHEDULE OF INVESTMENTS (AMOUNTS IN THOUSANDS*, EXCEPT NUMBER OF CONTRACTS):

* A zero balance may reflect actual amounts rounding to less than one thousand.

^ Security is in default.

(a) Interest only security.

(b) When-issued security.

(c) Coupon represents a weighted average yield to maturity.

(d) Zero coupon security.

(e) Coupon represents a yield to maturity.

(f) Principal amount of security is adjusted for inflation.

(g) Perpetual maturity; date shown, if applicable, represents next contractual call date.

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(h) 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	0.050%	06/30/2017	07/03/2017	$ 1,732	U.S. Treasury Notes 3.500% due 05/15/2020[2]	$ (1,770)	$ 1,732	$ 1,732
Total Repurchase Agreements						**$ (1,770)**	**$ 1,732**	**$ 1,732**

REVERSE REPURCHASE AGREEMENTS:

Counterparty	Borrowing Rate[3]	Settlement Date	Maturity Date		Amount Borrowed[3]	Payable for Reverse Repurchase Agreements
BPS	(0.350)%	05/03/2017	08/03/2017	EUR	(1,538)	$ (1,756)
	(0.350)	05/08/2017	08/03/2017		(4,301)	(4,909)
	(0.300)	06/29/2017	08/03/2017		(852)	(973)
	0.470	05/10/2017	07/20/2017	GBP	(772)	(1,007)
MYI	(0.500)	05/23/2017	07/27/2017	EUR	(1,069)	(1,220)
Total Reverse Repurchase Agreements						**$ (9,865)**

SALE-BUYBACK TRANSACTIONS:

Counterparty	Borrowing Rate[3]	Borrowing Date	Maturity Date	Amount Borrowed[3]	Payable for Sale-Buyback Transactions[4]
BPG	1.250%	06/08/2017	07/10/2017	$ (519)	$ (520)
GSC	1.150	06/13/2017	07/13/2017	(8,144)	(8,149)
TDM	1.200	06/06/2017	07/06/2017	(2,286)	(2,288)
Total Sale-Buyback Transactions					**$ (10,957)**

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 pledged/(received) as of June 30, 2017:

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Total Borrowings and Other Financing Transactions	Collateral Pledged/(Received)	Net Exposure[5]
Global/Master Repurchase Agreement						
BPS	$ 0	$ (8,645)	$ 0	$ (8,645)	$ 8,418	$ (227)
MYI	0	(1,220)	0	(1,220)	1,215	(5)
SSB	1,732	0	0	1,732	(1,770)	(38)
Master Securities Forward Transaction Agreement						
BPG	0	0	(520)	(520)	512	(8)
GSC	0	0	(8,149)	(8,149)	8,108	(41)
TDM	0	0	(2,288)	(2,288)	2,252	(36)
Total Borrowings and Other Financing Transactions	**$ 1,732**	**$ (9,865)**	**$ (10,957)**			

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					
Sovereign Issues	$ 0	$ (2,227)	$ (7,638)	$ 0	$ (9,865)
Total	**$ 0**	**$ (2,227)**	**$ (7,638)**	**$ 0**	**$ (9,865)**
Sale-Buyback Transactions					
U.S. Treasury Obligations	0	(10,957)	0	0	(10,957)
Total	**$ 0**	**$ (10,957)**	**$ 0**	**$ 0**	**$ (10,957)**
Total Borrowings	**$ 0**	**$ (13,184)**	**$ (7,638)**	**$ 0**	**$ (20,822)**
Gross amount of recognized liabilities for reverse repurchase agreements and sale-buyback financing transactions					**$ (20,822)**

(i) Securities with an aggregate market value of $20,747 have been pledged as collateral under the terms of the above master agreements as of June 30, 2017.

(1) Includes accrued interest.

(2) Collateral is held in custody by the counterparty.

(3) The average amount of borrowings outstanding during the period ended Month June 30, 2017 was $(21,052) at a weighted average interest rate of 0.404%. Average borrowings may include sale-buyback transactions and reverse repurchase agreements, if held during the period.

(4) Payable for sale-buyback transactions includes $(3) of deferred price drop.

(5) 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 8, Master Arrangements, in the Notes to Financial Statements for more information regarding master netting arrangements.

(j) 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 - CME 90-Day Eurodollar March Futures	$ 98.250	03/19/2018	254	$ 22	$ 20
Total Purchased Options				**$ 22**	**$ 20**

WRITTEN OPTIONS:

OPTIONS ON EXCHANGE-TRADED FUTURES CONTRACTS

Description	Strike Price	Expiration Date	# of Contracts	Premiums (Received)	Market Value
Put - CBOT U.S. Treasury 10-Year Note September Futures	$ 124.000	08/25/2017	30	$ (11)	$ (10)
Call - CBOT U.S. Treasury 10-Year Note September Futures	127.500	08/25/2017	30	(15)	(6)
Call - CME 90-Day Eurodollar March Futures	98.750	03/19/2018	254	(27)	(9)
				$ (53)	$ (25)
Total Written Options				**$ (53)**	**$ (25)**

FUTURES CONTRACTS:

LONG FUTURES CONTRACTS

Description	Expiration Month	# of Contracts	Notional Amount	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
90-Day Eurodollar March Futures	03/2018	81	$ 19,934	$ (17)	$ 0	$ (4)
90-Day Eurodollar September Futures	09/2017	288	71,024	28	0	(4)
Australia Government 3-Year Note September Futures	09/2017	30	AUD 2,574	(16)	0	(7)
Australia Government 10-Year Bond September Futures	09/2017	36	3,577	(55)	0	(41)
Canada Government 10-Year Bond September Futures	09/2017	37	CAD 4,010	(64)	0	(34)
Euro-Bobl September Futures	09/2017	125	EUR 18,803	(193)	0	(69)
Euro-BTP Italy Government Bond September Futures	09/2017	51	7,872	65	0	(104)
Euro-OAT France Government 10-Year Bond September Futures	09/2017	34	5,766	(66)	0	(50)
Euro-Schatz September Futures	09/2017	349	44,585	(119)	0	(20)

Description	Expiration Month	# of Contracts	Notional Amount	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
Japan Government 10-Year Bond September Futures	09/2017	24	JPY 32,031	$ (92)	$ 0	$ (87)
U.S. Treasury 5-Year Note September Futures	09/2017	169	$ 19,914	(45)	0	(29)
U.S. Treasury 10-Year Note September Futures	09/2017	466	58,498	(400)	0	(131)
U.S. Treasury Ultra Long-Term Bond September Futures	09/2017	49	8,128	10	0	(34)
United Kingdom Long Gilt September Futures	09/2017	59	GBP 9,649	(164)	0	(85)
				$ (1,128)	$ 0	$ (699)

SHORT FUTURES CONTRACTS

Description	Expiration Month	# of Contracts	Notional Amount	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
90-Day Eurodollar March Futures	03/2019	81	$ (19,874)	$ (89)	$ 7	$ 0
90-Day Eurodollar September Futures	09/2018	288	(70,769)	(133)	22	0
Euro-Bund 10-Year Bond September Futures	09/2017	34	EUR (6,286)	93	61	0
Euro-Buxl 30-Year Bond September Futures	09/2017	9	(1,681)	54	36	0
Put Options Strike @ EUR 160.500 on Euro-Bund 10-Year Bond September Futures	08/2017	28	(25)	(8)	0	(8)
U.S. Treasury 2-Year Note September Futures	09/2017	25	$ (5,403)	8	2	0
U.S. Treasury 30-Year Bond September Futures	09/2017	55	(8,453)	(3)	31	0
				$ (78)	$ 159	$ (8)
Total Futures Contracts				**$ (1,206)**	**$ 159**	**$ (707)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - BUY PROTECTION(1)

Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2017(3)	Notional Amount(4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value(5)	Variation Margin Asset	Variation Margin Liability
Altria Group, Inc.	1.000%	12/20/2020	0.169%	$ 700	$ (20)	$ 0	$ (20)	$ 0	$ 0
BASF SE	1.000	12/20/2020	0.169	EUR 200	(6)	(1)	(7)	0	0
BAT International Finance PLC	1.000	12/20/2020	0.324	400	(9)	(2)	(11)	0	0
Bayer AG	1.000	12/20/2020	0.228	300	(7)	(2)	(9)	0	0
Koninklijke DSM NV	1.000	12/20/2020	0.197	600	(19)	(1)	(20)	0	0
Navient Corp.	5.000	03/20/2019	0.681	$ 1,100	(67)	(16)	(83)	0	0
Pfizer, Inc.	1.000	12/20/2020	0.161	700	(20)	0	(20)	0	0
Reynolds American, Inc.	1.000	12/20/2020	0.164	700	(20)	0	(20)	0	0
Telia Co. AB	1.000	12/20/2020	0.301	EUR 200	(5)	(1)	(6)	0	0
United Utilities PLC	1.000	12/20/2020	0.428	200	(3)	(2)	(5)	0	0
UnitedHealth Group, Inc.	1.000	12/20/2020	0.124	$ 300	(8)	(1)	(9)	0	0
					$ (184)	$ (26)	$ (210)	$ 0	$ 0

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - SELL PROTECTION(2)

Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2017(3)	Notional Amount(4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value(5)	Variation Margin Asset	Variation Margin Liability
Berkshire Hathaway, Inc.	1.000%	12/20/2021	0.414%	$ 700	$ 5	$ 13	$ 18	$ 0	$ 0
Shell International Finance BV	1.000	12/20/2026	0.933	EUR 500	(15)	19	4	0	(1)
Telecom Italia SpA	1.000	06/20/2024	1.984	300	(22)	0	(22)	1	0
Tesco PLC	1.000	12/20/2021	1.366	200	(9)	5	(4)	0	0
Tesco PLC	1.000	06/20/2022	1.525	3,100	(156)	68	(88)	0	0
					$ (197)	$ 105	$ (92)	$ 1	$ (1)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION(1)

Index/Tranches	Fixed Receive Rate	Maturity Date	Notional Amount(4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value(5)	Variation Margin Asset	Variation Margin Liability
CDX.IG-27 5-Year Index	1.000%	12/20/2021	$ 5,000	$ (93)	$ (12)	$ (105)	$ 0	$ (2)
CDX.IG-28 5-Year Index	1.000	06/20/2022	54,200	(978)	(42)	(1,020)	0	(27)
iTraxx Europe Main 26 5-Year Index	1.000	12/20/2021	EUR 57,900	(909)	(617)	(1,526)	48	0
iTraxx Europe Main 27 5-Year Index	1.000	06/20/2022	20,700	(291)	(228)	(519)	20	0
				$ (2,271)	$ (899)	$ (3,170)	$ 68	$ (29)

 See Accompanying Notes

INTEREST RATE SWAPS

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value	Variation Margin	
								Asset	Liability
Pay	1-Year BRL-CDI	9.895%	01/02/2025	BRL 3,700	$ 0	$ (27)	$ (27)	$ 4	$ 0
Pay	1-Year BRL-CDI	9.973	01/02/2025	3,500	0	(22)	(22)	4	0
Pay	1-Year BRL-CDI	10.300	01/02/2025	13,900	68	(105)	(37)	14	0
Receive[6]	3-Month CAD Bank Bill	1.850	09/15/2027	CAD 4,600	67	22	89	22	0
Pay[6]	3-Month CAD-Bank Bill	1.400	09/13/2019	21,600	(20)	(10)	(30)	0	(9)
Receive	3-Month CAD-Bank Bill	1.500	12/16/2026	4,600	(107)	(64)	(171)	0	(45)
Receive	3-Month CAD-Bank Bill	1.750	12/16/2046	600	(60)	(9)	(69)	0	(12)
Pay	3-Month CHF-LIBOR	0.050	03/16/2026	CHF 1,400	5	(14)	(9)	0	(7)
Pay	3-Month SEK-STIBOR	1.013	01/23/2025	SEK 600	0	1	1	0	(1)
Pay	3-Month SEK-STIBOR	1.023	01/23/2025	500	0	1	1	0	0
Pay	3-Month SEK-STIBOR	1.033	01/23/2025	500	0	1	1	0	0
Pay	3-Month SEK-STIBOR	1.036	01/23/2025	600	0	1	1	0	(1)
Pay	3-Month USD-LIBOR	1.750	12/21/2026	$ 15,200	(367)	1,019	652	48	0
Pay	3-Month USD-LIBOR	1.000	05/15/2018	41,000	(163)	7	(156)	0	(4)
Pay[6]	3-Month USD-LIBOR	1.750	06/18/2018	154,400	13	154	167	0	(12)
Receive[6]	3-Month USD-LIBOR	1.250	05/15/2019	41,000	255	(57)	198	12	0
Receive[6]	3-Month USD-LIBOR	2.250	06/18/2019	154,400	(11)	(297)	(308)	28	0
Receive	3-Month USD-LIBOR	1.250	06/21/2019	79,400	497	55	552	33	0
Pay	3-Month USD-LIBOR	1.228	06/12/2022	9,000	0	(4)	(4)	0	(1)
Pay	3-Month USD-LIBOR	1.267	06/19/2022	19,800	1	(16)	(15)	0	(2)
Receive[6]	3-Month USD-LIBOR	2.250	12/20/2022	22,400	(311)	117	(194)	47	0
Receive	3-Month USD-LIBOR	1.750	12/21/2023	42,300	1,046	(230)	816	99	0
Receive[6]	3-Month USD-LIBOR	2.500	12/20/2027	18,100	(436)	216	(220)	58	0
Receive[6]	3-Month USD-LIBOR	2.098	07/01/2041	12,100	136	97	233	2	0
Receive	3-Month USD-LIBOR	1.768	12/15/2046	300	55	(6)	49	1	0
Receive	3-Month USD-LIBOR	2.250	12/21/2046	3,500	251	(16)	235	15	0
Receive[6]	3-Month USD-LIBOR	2.953	11/12/2049	800	0	(48)	(48)	4	0
Receive[6]	3-Month USD-LIBOR	2.955	11/12/2049	2,900	0	(176)	(176)	14	0
Pay	3-Month ZAR-JIBAR	8.500	03/15/2027	ZAR 15,000	(1)	40	39	0	(9)
Receive[6]	6-Month EUR-EURIBOR	0.250	09/20/2022	EUR 37,600	(79)	(99)	(178)	0	(174)
Pay	6-Month EUR-EURIBOR	1.000	11/30/2025	1,100	18	19	37	0	(9)
Receive[6]	6-Month EUR-EURIBOR	1.000	09/20/2027	22,450	265	(136)	129	0	(248)
Receive[6]	6-Month EUR-EURIBOR	1.500	03/21/2048	3,300	9	(1)	8	44	(41)
Receive[6]	6-Month GBP-LIBOR	0.750	09/20/2019	GBP 17,400	30	(30)	0	0	(52)
Receive[6]	6-Month GBP-LIBOR	1.000	09/20/2022	1,900	(3)	7	4	11	0
Receive	6-Month GBP-LIBOR	1.700	03/10/2026	100	(1)	(5)	(6)	0	0
Receive[6]	6-Month GBP-LIBOR	1.500	09/20/2027	18,600	(344)	38	(306)	240	0
Receive[6]	6-Month GBP-LIBOR	1.750	03/21/2048	1,700	114	(45)	69	0	(56)
Pay	6-Month JPY-LIBOR	0.150	03/22/2018	JPY 3,280,000	12	23	35	0	0
Receive	6-Month JPY-LIBOR	0.500	09/17/2021	150,000	(21)	(4)	(25)	1	0
Receive	6-Month JPY-LIBOR	0.300	03/18/2026	1,690,000	415	(303)	112	0	(26)
Receive	6-Month JPY-LIBOR	0.000	09/20/2026	570,000	(117)	3	(114)	0	(9)
Receive[6]	6-Month JPY-LIBOR	0.300	09/20/2027	180,000	6	(4)	2	0	(3)
Receive	6-Month JPY-LIBOR	1.500	06/19/2033	2,340,000	288	2,958	3,246	0	(69)
Receive	6-Month JPY-LIBOR	1.250	06/17/2035	150,000	24	131	155	0	(5)
Receive	6-Month JPY-LIBOR	1.500	12/21/2045	30,000	(114)	65	(49)	3	0
Pay	28-Day MXN-TIIE	4.340	09/28/2017	MXN 34,300	(23)	5	(18)	0	(1)
Pay	28-Day MXN-TIIE	4.260	10/31/2017	57,800	(49)	10	(39)	0	(1)
Pay	28-Day MXN-TIIE	5.610	07/07/2021	16,200	(1)	(36)	(37)	0	(2)
Pay	28-Day MXN-TIIE	7.278	03/22/2022	21,800	0	25	25	0	(3)
Pay	28-Day MXN-TIIE	7.317	03/23/2022	18,100	0	22	22	0	(2)
Receive	28-Day MXN-TIIE	6.080	03/10/2026	18,700	(106)	34	(72)	0	(6)
Pay	28-Day MXN-TIIE	7.740	02/22/2027	29,600	(5)	74	69	0	(10)
					$ 1,236	$ 3,381	$ 4,617	$ 704	$ (820)
Total Swap Agreements					**$ (1,416)**	**$ 2,561**	**$ 1,145**	**$ 773**	**$ (850)**

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, 2017:

	Financial Derivative Assets				Financial Derivative Liabilities			
	Market Value	Variation Margin Asset			Market Value	Variation Margin Liability		
	Purchased Options	Futures	Swap Agreements	Total	Written Options	Futures	Swap Agreements	Total
Total Exchange-Traded or Centrally Cleared	$ 20	$ 159	$ 773	$ 952	$ (25)	$ (707)	$ (850)	$ (1,582)

(k) Securities with an aggregate market value of $3,202 and cash of $6,499 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of June 30, 2017. See Note 8, Master Arrangements, in the Notes to Financial Statements for more information regarding master netting arrangements.

(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) 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 indicators of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(4) The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(5) The prices and resulting values for credit default swap agreements on credit indices serve as indicators 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.

(6) This instrument has a forward starting effective date. See Note 2, Securities Transactions and Investment Income, in the Notes to Financial Statements for further information.

(l) 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	07/2017	CNH	20,327	$	2,975	$ 0	$ (23)
	07/2017	$	739	AUD	974	10	0
	07/2017		1,289	GBP	1,002	17	0
	08/2017	AUD	974	$	739	0	(10)
	12/2017	$	2,943	CNH	20,327	23	0
BOA	07/2017	DKK	85,194	$	12,695	0	(391)
	07/2017	EUR	31,608		35,527	0	(574)
	07/2017	GBP	3,756		4,827	0	(65)
	07/2017	$	4,560	EUR	4,012	22	0
	07/2017		25,071	SEK	215,550	514	0
	08/2017	SEK	215,550	$	25,110	0	(515)
	08/2017	$	2,011	MXN	38,920	122	0
	08/2017		484	TRY	1,720	0	(1)
	01/2018	DKK	26,675	$	3,902	0	(238)
BPS	07/2017	BRL	2,207		667	1	0
	07/2017	CAD	17,807		13,232	0	(499)
	07/2017	CHF	2,369	EUR	2,165	2	0
	07/2017	JPY	890,000	$	7,948	31	0
	07/2017	$	659	BRL	2,207	7	0
	07/2017		45,776	EUR	40,243	187	0
	07/2017		7,943	JPY	890,000	0	(31)
	08/2017	EUR	40,243	$	45,844	0	(186)
	08/2017	$	115	MXN	2,115	1	0
	08/2017		427	PEN	1,406	4	0
	12/2017	INR	27,865	$	424	0	0
	03/2018	MXN	58,300		2,788	0	(311)
	04/2018	DKK	100,800		15,016	0	(715)
	04/2018	$	117	KRW	131,567	0	(1)

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
BRC	10/2017	$	1,240	IDR	16,690,024	$ 0	$ (1)
CBK	07/2017	BRL	13,243	$	4,007	10	0
	07/2017	CAD	664		491	0	(21)
	07/2017	EUR	1,277		1,437	0	(22)
	07/2017	GBP	26,423		33,997	0	(417)
	07/2017	$	4,009	BRL	13,243	0	(11)
	07/2017		2,939	CNH	20,327	59	0
	07/2017		14,330	JPY	1,611,419	0	(3)
	08/2017	JPY	1,611,419	$	14,347	3	0
	08/2017	MXN	21,263		1,146	0	(19)
	08/2017	$	3,983	BRL	13,243	0	(9)
	08/2017		4,970	JPY	560,000	14	0
	09/2017	SGD	2,278	$	1,645	0	(11)
	09/2017	$	2,513	RUB	145,703	0	(83)
DUB	07/2017	BRL	3,626	$	1,098	3	0
	07/2017	$	1,074	BRL	3,626	21	0
	07/2018	BRL	2,600	$	738	0	(1)
FBF	07/2017	INR	178,599		2,764	5	0
	07/2017	$	2,094	INR	137,562	31	0
	08/2017		1,219	TRY	4,350	3	0
	09/2017	MYR	2,978	$	687	0	(3)
	09/2017	$	2,240	RUB	136,718	41	0
	12/2017		2,725	INR	178,599	0	(7)
GLM	07/2017	BRL	574	$	173	0	0
	07/2017	CAD	479		360	0	(10)
	07/2017	EUR	2,118		2,374	0	(45)
	07/2017	JPY	2,567,520		23,097	265	0
	07/2017	NOK	1,955		232	0	(2)
	07/2017	$	159	BRL	574	14	0
	07/2017		176	DKK	1,170	3	0
	07/2017		429	EUR	384	9	0
	07/2017		2,790	GBP	2,182	52	0
	07/2017		8,533	JPY	956,100	0	(33)
	08/2017	CAD	159	$	123	0	0
	08/2017	CHF	2,045		2,137	1	0
	08/2017	NOK	1,955		233	0	(1)
	08/2017	$	1,479	AUD	1,926	1	0
	08/2017		103	MXN	1,877	0	0
	08/2017		210	TRY	748	0	0
	09/2017	MYR	1,118	$	259	0	0
	10/2017	DKK	1,995		306	0	(2)
	10/2017	RUB	142,316		2,428	68	0
	10/2017	$	403	IDR	5,426,395	0	0
	04/2018	DKK	1,170	$	179	0	(3)
	04/2018	$	675	KRW	766,733	0	(2)
HUS	07/2017	BRL	5,143	$	1,555	2	0
	07/2017	CHF	541		559	0	(5)
	07/2017	DKK	33,630		5,089	0	(77)
	07/2017	$	1,539	BRL	5,143	14	0
	07/2017		922	GBP	726	23	0
	08/2017		396	PEN	1,300	3	0
	10/2017	DKK	72,840	$	11,155	0	(89)
JPM	07/2017	AUD	2,219		1,641	0	(65)
	07/2017	EUR	1,831	SEK	17,713	11	0
	07/2017		5,677	$	6,350	0	(134)
	07/2017	JPY	2,340,000		21,175	367	0
	07/2017	NZD	2,478		1,780	0	(35)
	07/2017	SEK	7,350		848	0	(25)
	07/2017	$	2,167	AUD	2,840	16	0
	07/2017		14,457	CAD	18,950	156	0
	07/2017		60	EUR	53	1	0
	07/2017		1,933	GBP	1,492	10	0
	07/2017		4,993	JPY	560,000	0	(14)
	08/2017	CAD	18,950	$	14,464	0	(156)
	08/2017	EUR	4,012		4,582	0	(7)
	08/2017	MXN	20,270		1,076	0	(35)
	08/2017	NZD	2,039		1,494	1	0
	08/2017	$	230	BRL	769	1	0
	08/2017		3,253	EUR	2,849	5	0

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
	08/2017	$	2,030	MXN	36,637	$ 0	$ (22)
	08/2017		333	PEN	1,091	2	0
	08/2017		1,646	SEK	13,915	8	0
	10/2017	DKK	2,585	$	399	0	(1)
	10/2017	$	623	IDR	8,399,020	0	0
	12/2017	INR	42,014	$	639	0	0
	12/2017	$	666	INR	43,663	0	(2)
	04/2018	KRW	940,788	$	837	11	0
	04/2018		720	KRW	811,296	0	(8)
MSB	07/2017	EUR	806	SEK	7,783	3	0
	09/2017	MYR	632	$	146	0	0
NGF	11/2017	MXN	17,000		824	0	(91)
RBC	07/2017	JPY	3,480,000		31,300	351	0
SCX	08/2017	PLN	6,526		1,689	0	(72)
	08/2017	$	201	MXN	3,637	0	(2)
	09/2017	SGD	10,568	$	7,659	0	(26)
SOG	07/2017	SEK	208,200		23,872	0	(841)
	08/2017	$	396	TRY	1,409	0	0
TOR	10/2017	DKK	117,037	$	18,056	0	(11)
UAG	07/2017		9,220		1,385	0	(31)
	07/2017	$	267	DKK	1,850	18	0
	07/2017		31,754	GBP	24,777	517	0
	07/2017		624	INR	41,037	9	0
	08/2017	GBP	24,777	$	31,782	0	(517)
	09/2017	$	2,297	MYR	9,778	0	(31)
	12/2017	CNH	19,908	$	2,818	0	(87)
	12/2017	$	6	INR	393	0	0
	04/2018	KRW	765,990	$	675	3	0
WST	07/2017	NZD	3,177	AUD	3,025	0	(3)
Total Forward Foreign Currency Contracts						**$ 3,076**	**$ (6,653)**

PURCHASED OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description		Strike Price	Expiration Date		Notional Amount	Cost	Market Value
BOA	Call - OTC USD versus JPY	JPY	120.000	04/17/2020	$	1,629	$ 30	$ 32
CBK	Put - OTC EUR versus TRY	TRY	4.071	09/27/2017	EUR	2,100	53	34
DUB	Call - OTC USD versus JPY	JPY	120.000	04/17/2020	$	1,264	23	25
GLM	Put - OTC AUD versus JPY		75.600	06/19/2018	AUD	2,200	32	26
	Call - OTC USD versus JPY		120.000	04/20/2020	$	1,961	36	38
							$ 174	$ 155

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date		Notional Amount	Cost	Market Value
BRC	Put - OTC 10-Year Interest Rate Swap	6-Month EUR-EURIBOR	Receive	1.265%	09/11/2017	EUR	5,700	$ 57	$ 7
GLM	Put - OTC 1-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	2.400	03/14/2018	$	20,500	18	1
	Put - OTC 10-Year Interest Rate Swap	6-Month EUR-EURIBOR	Receive	1.164	09/11/2017	EUR	2,800	32	7
	Put - OTC 10-Year Interest Rate Swap	6-Month EUR-EURIBOR	Receive	1.223	09/11/2017		1,500	15	3
MYC	Put - OTC 1-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	2.030	12/18/2017	$	74,800	76	5
	Put - OTC 1-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	2.400	03/14/2018		104,500	87	6
								$ 285	$ 29

INTEREST RATE-CAPPED OPTIONS

Counterparty	Description	Exercise Rate	Floating Rate Index	Expiration Date	Notional Amount	Cost	Market Value
SOG	Call - OTC 1-Year Interest Rate Floor	0.400%	3-Month USD-LIBOR	10/26/2017	$ 45,800	$ 4	$ 0
Total Purchased Options						**$ 463**	**$ 184**

WRITTEN OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description		Strike Price	Expiration Date		Notional Amount	Premiums (Received)	Market Value
BPS	Put - OTC USD versus KRW	KRW	1,075.000	04/25/2018	$	345	$ (7)	$ (4)
CBK	Put - OTC EUR versus TRY	TRY	3.950	09/27/2017	EUR	2,100	(20)	(11)
	Call - OTC EUR versus TRY		4.171	09/27/2017		2,100	(33)	(45)
FBF	Call - OTC USD versus BRL	BRL	6.300	01/11/2018	$	600	(32)	0
GLM	Put - OTC CAD versus JPY	JPY	76.700	06/19/2018	CAD	2,200	(29)	(23)
	Call - OTC USD versus BRL	BRL	3.892	07/02/2018	$	1,400	(135)	(36)
	Put - OTC USD versus BRL		3.892	07/02/2018		1,400	(135)	(181)
	Put - OTC USD versus KRW	KRW	1,075.000	04/20/2018		1,961	(36)	(20)
JPM	Put - OTC USD versus KRW		1,075.000	04/25/2018		2,144	(44)	(22)
							$ (471)	$ (342)

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
GLM	Put - OTC 10-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	2.850%	09/11/2017	$ 11,800	$ (34)	$ (6)

INTEREST RATE-CAPPED OPTIONS

Counterparty	Description	Exercise Rate	Floating Rate Index	Expiration Date	Notional Amount	Premiums (Received)	Market Value
SOG	Call - OTC 1-Year Interest Rate Floor	0.000%	3-Month USD-LIBOR	10/26/2017	$ 45,800	$ 0	$ 0
Total Written Options						**$ (505)**	**$ (348)**

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED JUNE 30, 2017:

	Balance at Beginning of Period	Sales	Closing Buys	Expirations	Exercised	Balance at End of Period
# of Contracts	0	314	0	0	0	314
Notional Amount in $	$ 92,000	$ 28,150	$ (52,900)	$ (1,800)	$ 0	$ 65,450
Notional Amount in CAD	CAD 0	CAD 6,663	CAD (4,463)	CAD 0	CAD 0	CAD 2,200
Notional Amount in EUR	EUR 4,090	EUR 8,818	EUR (2,600)	EUR (3,799)	EUR (2,309)	EUR 4,200
Notional Amount in GBP	GBP 7,548	GBP 0	GBP 0	GBP (7,548)	GBP 0	GBP 0
Notional Amount in JPY	JPY 520,000	JPY 0	JPY 0	JPY 0	JPY (520,000)	JPY 0
Premiums	$ (1,401)	$ (420)	$ 1,123	$ 126	$ 14	$ (558)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - BUY PROTECTION[1]

Counterparty	Reference Entity	Fixed (Pay) Rate	Maturity Date	Implied Credit Spread at June 30, 2017[3]	Notional Amount[4]	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BPS	Japan Government International Bond	(1.000)%	06/20/2022	0.258%	$ 1,500	$ (54)	$ 0	$ 0	$ (54)
BRC	Springleaf Finance Corp.	(5.000)	06/20/2020	1.813	400	(38)	1	0	(37)
CBK	Japan Government International Bond	(1.000)	06/20/2022	0.258	500	(18)	0	0	(18)
GST	Japan Government International Bond	(1.000)	06/20/2022	0.258	800	(29)	1	0	(28)
						$ (139)	$ 2	$ 0	$ (137)

CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - SELL PROTECTION[2]

Counterparty	Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2017[3]	Notional Amount[4]	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
CBK	Shire Acquisitions Investments Ireland DAC	1.000%	12/20/2021	1.227%	EUR 200	$ (7)	$ 5	$ 0	$ (2)
GST	Brazil Government International Bond	1.000	06/20/2022	2.376	$ 200	(12)	0	0	(12)
HUS	Brazil Government International Bond	1.000	12/20/2021	2.161	200	(13)	3	0	(10)
						$ (32)	$ 8	$ 0	$ (24)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION[1]

Counterparty	Index/Tranches	Fixed (Pay) Rate	Maturity Date	Notional Amount[4]	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value[5] Asset	Liability
BPS	iTraxx Europe Subordinated 27 5-Year Index	(1.000)%	06/20/2022	EUR 1,400	$ 73	$ (48)	$ 25	$ 0

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	Liability
BOA	Floating rate equal to 3-Month CAD-LIBOR less 0.126% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	11/24/2018	CAD 5,700	$ 4,351	$ (17)	$ 63	$ 46	$ 0
	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	GBP 2,700	3,429	(11)	96	85	0
CBK	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	03/21/2020	11,100	13,575	(39)	904	865	0
CIB	Floating rate equal to 3-Month CAD-LIBOR less 0.126% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	11/24/2018	CAD 8,200	6,182	(81)	226	145	0
DUB	Floating rate equal to 3-Month GBP-LIBOR less 0.055% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	10/13/2026	GBP 800	976	(1)	66	65	0
GLM	Floating rate equal to 3-Month CAD-LIBOR less 0.126% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	11/24/2018	CAD 22,300	16,811	(23)	417	394	0
	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	03/21/2020	GBP 10,900	13,331	(21)	870	849	0
RBC	Floating rate equal to 3-Month CAD-LIBOR less 0.126% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	11/24/2018	CAD 5,600	4,222	(23)	122	99	0
RYL	Floating rate equal to 3-Month GBP-LIBOR less 0.055% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	10/13/2026	GBP 1,000	1,220	29	52	81	0
	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	10,700	13,589	(45)	382	337	0
SOG	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	03/21/2020	2,600	3,180	(15)	218	203	0
						$ (247)	$ 3,416	$ 3,169	$ 0

INTEREST RATE SWAPS

Counterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Pay	3-Month KRW-KORIBOR	1.860%	12/01/2020	KRW 1,607,700	$ 0	$ 9	$ 9	$ 0
CBK	Pay	3-Month KRW-KORIBOR	1.863	12/01/2020	996,500	0	5	5	0
DUB	Pay	3-Month KRW-KORIBOR	1.860	12/01/2020	4,823,100	0	27	27	0
NGF	Pay	3-Month KRW-KORIBOR	1.863	12/01/2020	1,607,700	0	9	9	0
						$ 0	$ 50	$ 50	$ 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 CHF 1-Year ATM Realized Volatility	6.800%	06/24/2019	$ 3	$ 0	$ 4	$ 4	$ 0
	Pay	EUR versus CHF 1-Year ATM Realized Volatility	6.750	06/26/2019	5	0	5	5	0
	Receive	USD versus CHF 1-Year ATM Realized Volatility	9.000	06/24/2019	3	0	(3)	0	(3)
	Receive	USD versus CHF 1-Year ATM Realized Volatility	9.000	06/26/2019	5	0	(4)	0	(4)
						$ 0	$ 2	$ 9	$ (7)
Total Swap Agreements						**$ (345)**	**$ 3,430**	**$ 3,253**	**$ (168)**

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 pledged/(received) as of June 30, 2017:

	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 Pledged/ (Received)	Net Exposure[7]
AZD	$ 50	$ 0	$ 0	$ 50	$ (33)	$ 0	$ 0	$ (33)	$ 17	$ 0	$ 17
BOA	658	32	140	830	(1,784)	0	0	(1,784)	(954)	1,165	211
BPS	233	0	25	258	(1,743)	(4)	(54)	(1,801)	(1,543)	1,456	(87)
BRC	0	7	0	7	(1)	0	(37)	(38)	(31)	0	(31)
CBK	86	34	870	990	(596)	(56)	(20)	(672)	318	373	691
CIB	0	0	145	145	0	0	0	0	145	0	145
DUB	24	25	101	150	(1)	0	(7)	(8)	142	0	142
FBF	80	0	0	80	(10)	0	0	(10)	70	0	70
GLM	413	75	1,243	1,731	(98)	(266)	0	(364)	1,367	0	1,367
GST	0	0	0	0	0	0	(40)	(40)	(40)	0	(40)
HUS	42	0	0	42	(171)	0	(10)	(181)	(139)	0	(139)
JPM	589	0	0	589	(504)	(22)	0	(526)	63	(50)	13
MSB	3	0	0	3	0	0	0	0	3	0	3
MYC	0	11	0	11	0	0	0	0	11	(20)	(9)
NGF	0	0	9	9	(91)	0	0	(91)	(82)	0	(82)
RBC	351	0	99	450	0	0	0	0	450	(280)	170
RYL	0	0	418	418	0	0	0	0	418	(10)	408
SCX	0	0	0	0	(100)	0	0	(100)	(100)	270	170
SOG	0	0	203	203	(841)	0	0	(841)	(638)	749	111
TOR	0	0	0	0	(11)	0	0	(11)	(11)	0	(11)
UAG	547	0	0	547	(666)	0	0	(666)	(119)	84	(35)
WST	0	0	0	0	(3)	0	0	(3)	(3)	0	(3)
Total Over the Counter	**$ 3,076**	**$ 184**	**$ 3,253**	**$ 6,513**	**$ (6,653)**	**$ (348)**	**$ (168)**	**$ (7,169)**			

(m) Securities with an aggregate market value of $4,097 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of June 30, 2017.

(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) 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 indicators of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(4) The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(5) The prices and resulting values for credit default swap agreements on credit indices serve as indicators 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.

(6) At the maturity date, the notional amount of the currency received will be exchanged back for the notional amount of the currency delivered.

(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 8, Master Arrangements, 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 8, 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, 2017:

	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						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ 20	$ 20
Futures	0	0	0	0	159	159
Swap Agreements	0	69	0	0	704	773
	$ 0	$ 69	$ 0	$ 0	$ 883	$ 952
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 3,076	$ 0	$ 3,076
Purchased Options	0	0	0	155	29	184
Swap Agreements	0	25	0	3,178	50	3,253
	$ 0	$ 25	$ 0	$ 6,409	$ 79	$ 6,513
	$ 0	$ 94	$ 0	$ 6,409	$ 962	$ 7,465
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 0	$ 0	$ 0	$ 25	$ 25
Futures	0	0	0	0	707	707
Swap Agreements	0	30	0	0	820	850
	$ 0	$ 30	$ 0	$ 0	$ 1,552	$ 1,582
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 6,653	$ 0	$ 6,653
Written Options	0	0	0	342	6	348
Swap Agreements	0	161	0	7	0	168
	$ 0	$ 161	$ 0	$ 7,002	$ 6	$ 7,169
	$ 0	$ 191	$ 0	$ 7,002	$ 1,558	$ 8,751

The effect of Financial Derivative Instruments on the Statement of Operations for the period ended June 30, 2017:

	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						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ (7)	$ (7)
Futures	0	0	0	0	2,619	2,619
Swap Agreements	0	(656)	0	0	3,545	2,889
	$ 0	$ (656)	$ 0	$ 0	$ 6,157	$ 5,501
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 8,491	$ 0	$ 8,491
Purchased Options	0	0	0	(42)	228	186
Written Options	0	0	0	316	(461)	(145)
Swap Agreements	0	(248)	0	(1,745)	14	(1,979)
	$ 0	$ (248)	$ 0	$ 7,020	$ (219)	$ 6,553
	$ 0	$ (904)	$ 0	$ 7,020	$ 5,938	$ 12,054
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ (1)	$ (1)
Written Options	0	0	0	0	27	27
Futures	0	0	0	0	(1,810)	(1,810)
Swap Agreements	0	(854)	0	0	(5,065)	(5,919)
	$ 0	$ (854)	$ 0	$ 0	$ (6,849)	$ (7,703)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (21,456)	$ 0	$ (21,456)
Purchased Options	0	0	0	(18)	(435)	(453)
Written Options	0	0	0	(123)	484	361
Swap Agreements	0	(66)	0	3,391	2,721	6,046
	$ 0	$ (66)	$ 0	$ (18,206)	$ 2,770	$ (15,502)
	$ 0	$ (920)	$ 0	$ (18,206)	$ (4,079)	$ (23,205)

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of June 30, 2017 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2017
Investments in Securities, at Value				
Australia				
Corporate Bonds & Notes	$ 0	$ 312	$ 0	$ 312
Sovereign Issues	0	111	0	111
Belgium				
Corporate Bonds & Notes	0	1,856	0	1,856
Brazil				
Corporate Bonds & Notes	0	3,042	0	3,042
Canada				
Corporate Bonds & Notes	0	7,160	0	7,160
Non-Agency Mortgage-Backed Securities	0	828	0	828
Sovereign Issues	0	11,575	0	11,575
Cayman Islands				
Asset-Backed Securities	0	16,765	0	16,765
Corporate Bonds & Notes	0	501	0	501
Denmark				
Corporate Bonds & Notes	0	54,754	0	54,754
France				
Corporate Bonds & Notes	0	5,837	0	5,837
Sovereign Issues	0	10,291	0	10,291
Germany				
Corporate Bonds & Notes	0	3,392	0	3,392
Greece				
Corporate Bonds & Notes	0	339	0	339
Sovereign Issues	0	622	0	622
Guernsey, Channel Islands				
Corporate Bonds & Notes	0	826	0	826

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2017
Ireland				
Asset-Backed Securities	$ 0	$ 915	$ 0	$ 915
Corporate Bonds & Notes	0	2,816	0	2,816
Sovereign Issues	0	1,086	0	1,086
Italy				
Corporate Bonds & Notes	0	1,688	0	1,688
Non-Agency Mortgage-Backed Securities	0	356	0	356
Sovereign Issues	0	9,867	0	9,867
Japan				
Corporate Bonds & Notes	0	1,953	0	1,953
Sovereign Issues	0	13,556	0	13,556
Kuwait				
Sovereign Issues	0	3,770	0	3,770
Luxembourg				
Corporate Bonds & Notes	0	3,387	0	3,387
Multinational				
Corporate Bonds & Notes	0	915	0	915
Netherlands				
Asset-Backed Securities	0	3,273	0	3,273
Corporate Bonds & Notes	0	13,629	0	13,629
Norway				
Corporate Bonds & Notes	0	1,507	0	1,507
Sovereign Issues	0	239	0	239
Poland				
Sovereign Issues	0	1,751	0	1,751
Portugal				
Corporate Bonds & Notes	0	465	0	465

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2017
Qatar				
Corporate Bonds & Notes	$ 0	$ 434	$ 0	$ 434
Sovereign Issues	0	304	0	304
Saudi Arabia				
Sovereign Issues	0	4,042	0	4,042
Slovenia				
Sovereign Issues	0	7,578	0	7,578
South Korea				
Corporate Bonds & Notes	0	396	0	396
Spain				
Corporate Bonds & Notes	0	4,434	0	4,434
Sovereign Issues	0	15,268	0	15,268
Supranational				
Corporate Bonds & Notes	0	588	0	588
Sweden				
Corporate Bonds & Notes	0	30,671	0	30,671
Switzerland				
Corporate Bonds & Notes	0	4,572	0	4,572
Sovereign Issues	0	473	0	473
United Arab Emirates				
Corporate Bonds & Notes	0	498	0	498
United Kingdom				
Corporate Bonds & Notes	0	20,753	1,146	21,899
Non-Agency Mortgage-Backed Securities	0	8,956	0	8,956
Sovereign Issues	0	12,841	0	12,841
United States				
Asset-Backed Securities	0	27,289	0	27,289
Corporate Bonds & Notes	0	60,113	0	60,113
Loan Participations and Assignments	0	1,487	0	1,487
Municipal Bonds & Notes	0	142	0	142
Non-Agency Mortgage-Backed Securities	0	7,997	30	8,027
U.S. Government Agencies	$ 0	$ 30,113	$ 0	$ 30,113
U.S. Treasury Obligations	0	21,512	0	21,512
Short-Term Instruments				
Certificates of Deposit	0	3,302	0	3,302
Repurchase Agreements	0	1,732	0	1,732
Japan Treasury Bills	0	51,748	0	51,748
Mexico Treasury Bills	0	3,970	0	3,970
U.S. Treasury Bills	0	200	0	200
	$ 0	$ 500,797	$ 1,176	$ 501,973
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 9,041	$ 0	$ 0	$ 9,041
Total Investments	$ 9,041	$ 500,797	$ 1,176	$ 511,014
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	179	773	0	952
Over the counter	0	6,513	0	6,513
	$ 179	$ 7,286	$ 0	$ 7,465
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(716)	(866)	0	(1,582)
Over the counter	0	(7,167)	(2)	(7,169)
	$ (716)	$ (8,033)	$ (2)	$ (8,751)
Total Financial Derivative Instruments	$ (537)	$ (747)	$ (2)	$ (1,286)
Totals	$ 8,504	$ 500,050	$ 1,174	$ 509,728

There were no significant transfers among Levels 1, 2, or 3 during the period ended June 30, 2017.

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 beyond a standard settlement period for the security 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, if any, are recorded as components of interest income on the Statement of Operations. Income or short-term capital gain distributions received from registered investment companies, if any, are recorded as dividend income. Long-term capital gain distributions received from registered investment companies, if any, 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. 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) Distributions to Shareholders Distributions 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 distributions 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. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting. As a result, income distributions 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.

If the Portfolio estimates that a portion of one of its dividend distributions may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Portfolio will notify shareholders of record of the estimated composition of such distribution through a Section 19 Notice. For these purposes, the Portfolio estimates the source or sources from which a distribution is paid, to the close of the period as of which it is paid, in reference to its internal accounting records and related accounting practices. If, based on such accounting records and practices, it is estimated that a particular distribution does not include capital gains or paid-in surplus or other capital sources, a Section 19 Notice generally would not be issued. It is important to note that differences exist between the Portfolio's daily internal accounting records and practices, the Portfolio's financial statements presented in accordance with U.S. GAAP, and recordkeeping practices under income tax regulations. For instance, the Portfolio's internal accounting records and practices may take into account, among other factors, tax-related characteristics of certain sources of distributions that differ from treatment under U.S. GAAP. Examples of such differences may include, among others, the treatment of paydowns on mortgage-backed securities purchased at a discount and periodic payments under interest rate swap contracts. Accordingly, among other consequences, it is possible that the Portfolio may not issue a Section 19 Notice in situations where the Portfolio's financial statements prepared later and in accordance with U.S. GAAP and/or the final tax character of those distributions might later report that the sources of those distributions included capital gains and/or a return of capital. Final determination of a distribution's tax character will be provided to shareholders when such information is available.

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 U.S. GAAP to tax characterizations of distributions.

(e) New Accounting Pronouncements In March 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), ASU 2016-05 which provides guidance related to the impact of derivative contract novations on certain relationships under Accounting Standards Codification ("ASC") 815. The ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Portfolio has adopted the ASU. The implementation of the ASU did not have an impact on the Portfolio's financial statements.

In August 2016, the FASB issued ASU 2016-15 which amends ASC 230 to clarify guidance on the classification of certain cash receipts and cash payments in the Statement of Cash Flows. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

In October 2016, the U.S. Securities and Exchange Commission ("SEC") adopted new rules and forms, and amendments to certain current rules and forms, to modernize reporting and disclosure of information by registered investment companies. The amendments to Regulation S-X will require standardized, enhanced disclosure about derivatives in investment company financial statements, and will also change the rules governing the form and content of such financial statements. The compliance date for these amendments is August 1, 2017. Compliance is based on reporting period-end date. At this time, management is evaluating the implications of these changes on the financial statements.

In November 2016, the FASB issued ASU 2016-18 which amends ASC 230 to provide guidance on the classification and presentation of changes in restricted cash and restricted cash equivalents on the Statement of Cash Flows. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

In March 2017, the FASB issued ASU 2017-08 which provides guidance related to the amortization period for certain purchased callable debt securities held at a premium. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The Portfolio has adopted the ASU. The implementation of 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, less any liabilities attributable to the Portfolio or class, 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 as of which 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. If market value pricing is used, 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. The Portfolio's investments in open-end management investment companies, other than exchange-traded funds ("ETFs"), are valued at 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 foreign (non-U.S.) securities. Foreign 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 the 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 the Portfolio could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by the Portfolio may differ from the value that would be realized if the securities were sold. The Portfolio's use of fair valuation may also help to deter "stale price arbitrage" as discussed under the "Frequent or Excessive Purchases, Exchanges and Redemptions" section in the Portfolio's prospectus.

(b) Fair Value Hierarchy U.S. GAAP describes fair value as the price that the Portfolio would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, or 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

- Level 1 — 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 value 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.

Equity exchange-traded options and over the counter financial derivative instruments, such as forward foreign currency contracts and options contracts derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. These contracts are normally valued on the basis of 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 and over the counter swaps derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. They are valued using a broker-dealer bid quotation or on market-based prices provided by Pricing Services (normally determined as of the NYSE close). Centrally cleared swaps and over the counter swaps can be valued by Pricing Services using a series of techniques, including simulation pricing models. The pricing models may use inputs that are observed from actively quoted markets such as the overnight index swap rate ("OIS"), London Interbank Offered Rate ("LIBOR") forward rate, interest rates, yield curves and credit spreads. 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.

Short-term debt instruments (such as commercial paper) having a remaining maturity of 60 days or less may be valued at amortized cost, so long as the amortized cost value of such short-term debt instruments is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. These securities are categorized as Level 2 or Level 3 of the fair value hierarchy depending on the source of the base price.

4. SECURITIES AND OTHER INVESTMENTS

(a) Investments in Affiliates

The Portfolio may invest in the PIMCO Short-Term Floating NAV Portfolio III and the PIMCO Short-Term Floating NAV Portfolio IV ("Central Funds") to the extent permitted by the Act and rules thereunder. The Central Funds are registered investment companies created for use solely by the series of the Trust and other series of registered investment companies advised by the Adviser, in connection with their cash management activities. The main investments of the Central Funds are money market and short maturity fixed income instruments. The Central Funds may incur expenses related to their investment activities, but do not pay Investment Advisory Fees or Supervisory and Administrative Fees to the Adviser. The Central Funds are considered to be affiliated with the Portfolio. The table below shows the Portfolio's transactions in and earnings from investments in an affiliated Fund for the period ended June 30, 2017 (amounts in thousands†):

Investment in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2016	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 06/30/2017	Dividend Income[(1)]	Realized Net Capital Gain Distributions[(1)]
$ 3,588	$ 130,355	$ (124,900)	$ (2)	$ 0	$ 9,041	$ 55	$ 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 of the affiliated fund. See Note 2, Distributions to Shareholders, in the Notes to Financial Statements for more information.

(b) Investments in Securities

Delayed-Delivery Transactions The Portfolio may purchase or sell securities on a delayed-delivery basis. These transactions involve a commitment by the Portfolio to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed-delivery transactions are outstanding, the Portfolio will designate or receive as collateral liquid assets in an amount sufficient to meet the purchase price or respective obligations. When purchasing a security on a delayed-delivery basis, the Portfolio assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and takes such fluctuations into account when determining its NAV. The Portfolio may dispose of or renegotiate a delayed-delivery transaction after it is entered into, which may result in a realized gain (loss). When the Portfolio has sold a security on a delayed-delivery basis, the Portfolio does not participate in future gains (losses) with respect to the security.

Inflation-Indexed Bonds The Portfolio may invest in inflation-indexed bonds. Inflation-indexed bonds are fixed income securities whose principal value is periodically adjusted by 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. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. TIPS. For bonds that do not provide a similar guarantee, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

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, 2017, 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. In an open maturity repurchase agreement, there is no pre-determined repurchase date and the agreement can be terminated by the Portfolio or counterparty at any time. The underlying securities for all repurchase agreements are held by the Portfolio's custodian or designated subcustodians under tri-party repurchase agreements and in certain instances will remain in custody with the counterparty. 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.

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. A futures contract is an agreement to buy or sell a security or other asset for a set price on a future date. 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 specified amounts of currency at 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-Capped Options The Portfolio may write or purchase interest rate-capped options to enhance returns or for hedging opportunities. The purpose of purchasing interest rate-capped options is to protect the Portfolio from floating rate risk above a certain rate on a given notional exposure. A floor can be used to give downside protection to investments in interest rate linked products.

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.

Options on Securities The Portfolio may write or purchase options on securities. An option uses a specified security as the underlying instrument for the option contract. The Portfolio may write or purchase options to enhance returns or to hedge an existing position or future investment.

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, 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 in general better reflects the Portfolio's actual economic exposure during the term of the credit default swap agreement. As a result, the Portfolio may, at times, have notional exposure to an asset class (before netting) that is greater or lesser than the stated limit or restriction noted in the Portfolio's prospectus. 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. To the extent the Portfolio has a policy to limit the net amount owed to or to be received from a single counterparty under existing swap agreements, such limitation only applies to counterparties to OTC swaps and does not apply to centrally cleared swaps where the counterparty is a central counterparty or derivatives clearing organization.

Credit Default Swap Agreements The 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 the Portfolio owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default. Credit default swap agreements 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. The value of the fixed rate bonds that the Portfolio holds 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 and equity risks.

Interest rate risk is the risk that fixed income securities and other instruments held by the Portfolio will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Portfolio is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. 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.). Under current economic conditions, interest rates are near historically low levels. Thus, the Portfolio currently faces a heightened level of interest rate risk, especially since the Federal Reserve Board has ended its quantitative easing program and has begun, and may continue, to raise interest rates. To the extent the Federal Reserve Board continues to raise interest rates, there is a risk that rates across the financial system may rise. 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. Also, the Portfolio may be adversely affected when a large shareholder purchases or redeems large amounts of shares, which can occur at any time and may impact the Portfolio in the same manner as a high volume of purchase or redemption requests. Large shareholder transactions may impact the Portfolio's liquidity and net asset value. Such transactions may also increase the Portfolio's transaction costs or otherwise cause the Portfolio to perform differently than intended. Moreover, the Portfolio is subject to the risk that other shareholders may make investment decisions based on the choices of a large shareholder.

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 derivatives traded on an exchange or through a central counterparty, credit risk resides with the Portfolio's clearing broker, or the clearinghouse itself, rather than with a counterparty in an OTC derivative transaction. 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, seeks to minimize 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 is required to 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.

8. MASTER 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 TBA 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 are 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.

9. 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 as noted in the table in note (b) below.

(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 Investment Advisory Fees and Supervisory and Administrative Fees for all classes, as applicable, are charged at the annual rate as noted in the following table (calculated as a percentage of the Portfolio's average daily net assets attributable to each class):

Investment Advisory Fee	Supervisory and Administrative Fee		
All Classes	Institutional Class	Administrative Class	Advisor Class
0.25%	0.50%	0.50%	0.50%

(c) Distribution and Servicing Fees PIMCO Investments LLC, a wholly-owned subsidiary of PIMCO, serves as the distributor ("Distributor") of the Trust's shares.

	Distribution Fee	Servicing Fee
Administrative Class	—	0.15%
Advisor Class	0.25%	—

The Trust has adopted an Administrative Services Plan with respect to the Administrative Class shares of the Portfolio pursuant to Rule 12b-1 under the Act (the "Administrative Plan"). Under the terms of the Administrative Plan, the Trust is permitted to compensate the Distributor, out of the Administrative Class assets of the Portfolio, in an amount up to 0.15% on an annual basis of the average daily net assets of that class, for providing or procuring through financial intermediaries administrative, recordkeeping and investor services for Administrative Class shareholders of the Portfolio.

The Trust has adopted a separate Distribution and Servicing Plan for the Advisor Class shares of the Portfolio (the "Distribution and Servicing Plan"). The Distribution and Servicing Plan has been adopted pursuant to Rule 12b-1 under the Act. The Distribution and Servicing Plan permits the Portfolio to compensate the Distributor for providing or procuring through financial intermediaries distribution, administrative, recordkeeping, shareholder and/or related services with respect to Advisor Class shares. The Distribution and Servicing Plan permits the Portfolio to make total payments at an annual rate of up to 0.25% of its average daily net assets attributable to its Advisor Class shares.

(d) Portfolio Expenses PIMCO provides or procures supervisory and administrative services for shareholders and also bears the costs of various third-party services required by the Portfolio, 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 $36,850, plus $3,800 for each Board meeting attended in person, $775 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 $6,000, the valuation oversight committee lead receives an additional annual retainer of $4,250 (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 $2,125) and the governance committee chair receives an additional annual retainer of $2,750. 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. 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.

10. RELATED PARTY TRANSACTIONS

The Adviser, Administrator, and Distributor are related parties. Fees paid to these parties are disclosed in Note 9, 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 portfolio 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, 2017, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

Purchases	Sales
$ 3,431	$ 710

11. 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.

12. 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, 2017, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 243,316	$ 255,740	$ 194,408	$ 64,794

13. SHARES OF BENEFICIAL INTEREST

The Trust 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 06/30/2017		Year Ended 12/31/2016	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	84	$ 934	196	$ 2,150
Administrative Class	1,076	11,884	2,022	22,276
Advisor Class	3,870	42,744	9,885	108,149

	Six Months Ended 06/30/2017		Year Ended 12/31/2016	
	Shares	Amount	Shares	Amount
Issued as reinvestment of distributions				
Institutional Class	2	$ 21	8	$ 87
Administrative Class	19	211	109	1,200
Advisor Class	88	975	495	5,436
Cost of shares redeemed				
Institutional Class	(21)	(236)	(31)	(336)
Administrative Class	(760)	(8,400)	(3,226)	(35,243)
Advisor Class	(65)	(715)	(379)	(4,144)
Net increase (decrease) resulting from Portfolio share transactions	4,293	$ 47,418	9,079	$ 99,575

As of June 30, 2017, one shareholder owned 10% or more of the Portfolio's total outstanding shares comprising 84% of the Portfolio.

14. 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.

The foregoing speaks only as of the date of the preparation of this report.

15. 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, 2017, 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 2013-2016, 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 Modernization Act of 2010, a Portfolio 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 its last fiscal year ended December 31, 2016, the Portfolio had the following post-effective capital losses with no expiration (amounts in thousands†):

	Short-Term	Long-Term
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	$4,891	$0

† A zero balance may reflect actual amounts rounding to less than one thousand.

As of June 30, 2017, 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]
$ 506,108	$ 11,589	$ (6,683)	$ 4,906

[1] Primary differences, if any, between book and tax net unrealized appreciation (depreciation) are attributable to wash sale loss deferrals for Federal income tax purposes.

Glossary: (abbreviations that may be used in the preceding statements)

Counterparty Abbreviations:

AZD	Australia and New Zealand Banking Group	**GSC**	Goldman Sachs & Co.	**RTA**	Bank of New York Mellon Corp.
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.	**SAL**	Citigroup Global Markets, Inc.
BPG	BNP Paribas Securities Corp.	**JPM**	JPMorgan Chase Bank N.A.	**SCX**	Standard Chartered Bank
BPS	BNP Paribas S.A.	**MAC**	Macquarie Bank Limited	**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.	**TDM**	TD Securities (USA) LLC
CIB	Canadian Imperial Bank of Commerce	**MYI**	Morgan Stanley & Co. International PLC	**TOR**	Toronto Dominion Bank
DUB	Deutsche Bank AG	**NGF**	Nomura Global Financial Products, Inc.	**UAG**	UBS AG Stamford
FBF	Credit Suisse International	**RBC**	Royal Bank of Canada	**WST**	Westpac Banking Corp.
GLM	Goldman Sachs Bank USA				

Currency Abbreviations:

AUD	Australian Dollar	**IDR**	Indonesian Rupiah	**PEN**	Peruvian New Sol
BRL	Brazilian Real	**INR**	Indian Rupee	**PLN**	Polish Zloty
CAD	Canadian Dollar	**JPY**	Japanese Yen	**RUB**	Russian Ruble
CHF	Swiss Franc	**KRW**	South Korean Won	**SEK**	Swedish Krona
CNH	Chinese Renminbi (Offshore)	**MXN**	Mexican Peso	**SGD**	Singapore Dollar
CNY	Chinese Renminbi (Mainland)	**MYR**	Malaysian Ringgit	**TRY**	Turkish New Lira
DKK	Danish Krone	**NOK**	Norwegian Krone	**USD (or $)**	United States Dollar
EUR	Euro	**NZD**	New Zealand Dollar	**ZAR**	South African Rand
GBP	British Pound				

Exchange Abbreviations:

CBOE	Chicago Board Options Exchange	**CME**	Chicago Mercantile Exchange
CBOT	Chicago Board of Trade	**OTC**	Over the Counter

Index/Spread Abbreviations:

CDX.IG	Credit Derivatives Index - Investment Grade

Other Abbreviations:

ABS	Asset-Backed Security	**DAC**	Designated Activity Company	**NCUA**	National Credit Union Administration
ALT	Alternate Loan Trust	**EURIBOR**	Euro Interbank Offered Rate	**OAT**	Obligations Assimilables du Trésor
ATM	At-the-money	**JIBAR**	Johannesburg Interbank Agreed Rate	**STIBOR**	Stockholm Interbank Offered Rate
BABs	Build America Bonds	**JSC**	Joint Stock Company	**TBA**	To-Be-Announced
BTP	Buoni del Tesoro Poliennali	**KORIBOR**	Korea Interbank Offered Rate	**TIBOR**	Tokyo Interbank Offered Rate
CDI	Brazil Interbank Deposit Rate	**LIBOR**	London Interbank Offered Rate	**TIIE**	Tasa de Interés Interbancaria de Equilibrio "Equilibrium Interbank Interest Rate"
CLO	Collateralized Loan Obligation				

General Information

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Kansas City, MO 64106

This report is submitted for the general information of the shareholders of the PIMCO Variable Insurance Trust.

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PIMCO

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PIMCO

Semiannual Report

June 30, 2017

PIMCO Variable Insurance Trust

PIMCO Low Duration Portfolio

Share Classes

- Institutional
- Administrative
- Advisor

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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, 2017. 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.

Highlights of the financial markets during the six-month fiscal reporting period include:

- Through early 2017, the robust risk sentiment that marked the post-U.S. election period broadly continued, though there were some signs of moderation towards the end of March. Early challenges in President Donald Trump's policy agenda left some investors less optimistic about the potential for other highly anticipated agenda items such as tax reform and infrastructure spending. Still, solid fundamental data, relatively easy financial conditions, and optimism among businesses and consumers helped encourage positive investor sentiment. This environment provided an opportunity for the Federal Reserve ("Fed") to continue on its path towards policy normalization, and led the Fed to raise its key lending rate, the Federal Funds Rate, again in March by 0.25% to a range of 0.75% to 1.00%.

- Geopolitics, including elections in several countries as well as political controversy in both the U.S. and Brazil, dominated headlines and contributed to brief periods of market volatility throughout the last quarter of the reporting period. In the U.S., the Fed raised the Federal Funds Rate once again in June by 0.25% to a range of 1.00% to 1.25%, and unveiled details of its plan to gradually unwind its balance sheet, contributing to a flattening yield curve. A perceived hawkish shift in tone from other major central banks, including the European Central Bank, the Bank of England, and the Bank of Canada, spurred most developed market yields to rise even as longer-term interest rates actually fell in the U.S. The fundamental economic backdrop remained largely intact and the broader risk rally continued as equities marched higher, credit spreads tightened, and emerging market ("EM") assets strengthened.

- U.S. Treasuries, as represented by the Bloomberg Barclays U.S. Treasury Index, returned 1.87% for the reporting period. Yields rose at the short-end of the U.S. Treasury yield curve through three-year maturities, but declined across the longer-term portion of U.S. Treasury yield curve as the Fed continued its tightening monetary policy. The benchmark ten-year U.S. Treasury note yielded 2.31% at the end of the reporting period, down from 2.45% on December 31, 2016. The Bloomberg Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 2.27% for the reporting period.

- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Bloomberg Barclays U.S. TIPS Index, returned 0.85% over the reporting period. The upward pressure on U.S. real interest rates experienced after the U.S. election moderated during the first part of 2017, as questions arose about the feasibility and timing of the new administration's proposed policies. Real yields in the U.S. resumed their upward trajectory in the last quarter of the reporting period, particularly in June, as the Fed raised rates for the fourth time in this cycle and announced detailed plans to reduce its balance sheet by tapering reinvestments. Inflation expectations dipped lower over the period on the back of persistent oil weakness and three consecutive soft Consumer Price Index ("CPI") releases during the second quarter.

- Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, declined 5.26% over the reporting period. Within energy, oil prices dipped lower as production out of non-OPEC countries increased, elevating uncertainty that OPEC may succeed in rebalancing the oil market. Natural gas saw pressure from a warm U.S. winter; and continued to underperform in the second quarter of the reporting period due to unfavorable weather and higher U.S. inventories. Within precious metals, gold rallied on lower real yields over the first quarter of the reporting period, but ended slightly down driven by higher U.S. real yields at the end of the reporting period. Within agriculture, wheat outperformed on poor crop quality and production uncertainty.

- Agency mortgage-backed securities ("MBS"), as represented by the Bloomberg Barclays U.S. MBS Fixed Rate Index, returned 1.35% over the reporting period and underperformed like-duration U.S. Treasuries amid headwinds from heavy supply and concerns regarding the unwinding of the Fed's balance sheet. Non-Agency MBS prices were higher and spreads tightened, as the sector continued to benefit from favorable technicals and stable fundamentals.
- U.S. investment grade credit, as represented by the Bloomberg Barclays U.S. Credit Index, returned 3.68% over the reporting period, alongside falling credit yields, a relatively stable global growth environment, low volatility and strength in equity markets. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index (USD Hedged), returned 5.02% over the reporting period. Performance was strong and reflected meaningfully less dispersion across sectors, given the improving stability of commodities.
- EM external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 6.20% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), returned 10.36% over the reporting period. The economic slowdown in China continued, though policymakers have placed a premium on near-term stability ahead of the 19th National Congress of the Communist Party of China scheduled to take place this autumn, effectively reducing the rate of depreciation for the Chinese Yuan. EM currencies broadly appreciated against the U.S. dollar, remaining resilient in the face of lower commodity prices and more hawkish rhetoric from developed market central banks.
- Global equity markets generally posted positive returns on strong investor risk appetite amid a period marked by low economic volatility and strong corporate earnings growth despite geopolitical uncertainty during the reporting period. U.S. equities, as represented by the S&P 500 Index, returned 9.34% over the reporting period. Developed market equities outside the US, as represented by the MSCI EAFE Net Dividend Index (USD Hedged), returned 8.27% and the MSCI EAFE Net Dividend Index (USD Unhedged), returned 13.81% over the reporting period. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 18.43% over the same period.

Thank you again, for the trust you place 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
Chairman of the Board,
PIMCO Variable Insurance Trust

August 22, 2017

Past performance is no guarantee of future results. Unless otherwise noted, index returns reflect the reinvestment of income distributions 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 that includes 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 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 at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with a rising interest rate environment. This is especially true as the Fed ended its quantitative easing program in October 2014 and has begun, and may continue, to raise interest rates. To the extent the Fed continues to raise interest rates, there is a risk that rates across the financial system may rise. 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. Changes in regulation relating to a mutual fund's use of derivatives and related instruments could potentially limit or impact the Portfolio's ability to invest in derivatives, limit the Portfolio's ability to employ certain strategies that use derivatives and/or adversely affect the value or performance of derivatives and the Portfolio. 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 may vary by share class based on each class's expense ratios. The Portfolio measures its performance against at least one 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. There is no assurance that the Portfolio, even if the Portfolio has experienced high or unusual performance for one or more periods, will experience similar levels of performance in the future. High performance is defined as a significant increase in either 1) the Portfolio's total return in excess of that of the Portfolio's benchmark between reporting periods or 2) the Portfolio's total return in excess of the Portfolio's historical returns between reporting periods. Unusual performance is defined as a significant change in the Portfolio's performance as compared to one or more previous reporting periods.

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	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.

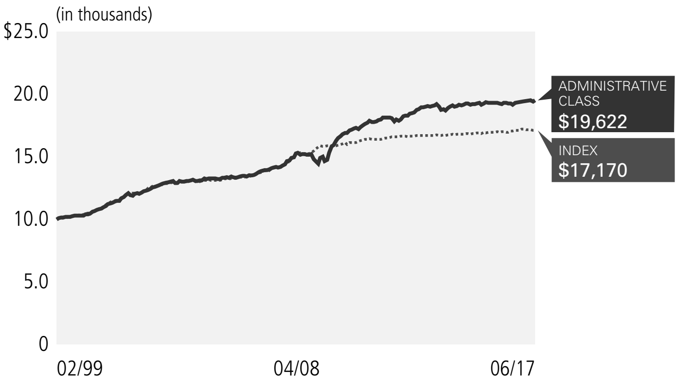
The Trustees are responsible generally for overseeing the management of the Trust. The Trustees authorize the Trust to enter into service agreements with the Adviser, the Distributor, the Administrator and other service providers in order to provide, and in some cases authorize service providers to procure 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 www.pimco.com/pvit, and on the Securities and Exchange Commission's ("SEC") website at www.sec.gov.

The Trust files a complete schedule of the Portfolio's holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. A copy of the Portfolio'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. A copy of the Portfolio's Form N-Q is also available without charge, upon request, by calling the Trust at (888) 87-PIMCO and on the Portfolio's website at www.pimco.com/pvit. 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, 2017



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown as of 06/30/2017†§

Corporate Bonds & Notes	32.8%
Short-Term Instruments‡	27.9%
U.S. Government Agencies	22.2%
Asset-Backed Securities	7.1%
Sovereign Issues	4.1%
U.S. Treasury Obligations	3.5%
Non-Agency Mortgage Backed Securities	2.4%

† % of Investments, at value.

§ Allocation Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.

‡ Includes Central Funds Used for Cash Management Purposes.

Average Annual Total Return for the period ended June 30, 2017

	6 Months*	1 Year	5 Years	10 Years	Inception≈
PIMCO Low Duration Portfolio Institutional Class	0.71%	1.23%	1.31%	3.47%	3.89%
— PIMCO Low Duration Portfolio Administrative Class	0.64%	1.08%	1.16%	3.32%	3.72%
PIMCO Low Duration Portfolio Advisor Class	0.59%	0.98%	1.06%	3.22%	3.33%
····· BofA Merrill Lynch 1-3 Year U.S. Treasury Index±	0.44%	(0.11)%	0.63%	1.95%	2.98%♦

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. Differences in the Portfolio's performance versus the index and related attribution information with respect to particular categories of securities or individual positions may be attributable, in part, to differences in the pricing methodologies used by the Portfolio and the index. For performance current to the most recent month-end, visit www.pimco.com/pvit or call (888) 87-PIMCO.

The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented, is 0.50% for Institutional Class shares, 0.65% for Administrative Class shares, and 0.75% for Advisor Class shares. Details regarding any Portfolio's operating expenses can be found in the Portfolio's prospectus.

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 strategies may change from time to time. Please refer to the Portfolio's current prospectus for more information regarding the Portfolio's strategy.

Portfolio Insights

The following affected performance during the reporting period:

» U.S. interest rate strategies contributed to relative performance, particularly the portfolio's underweight exposure to the front end of the U.S. yield curve, as rates rose.

» Overweight exposure to investment grade corporate spread duration contributed to relative performance, as spreads tightened.

» Positions in non-agency mortgage-backed securities (MBS) contributed to relative performance, as total returns in these securities were positive.

» Short positions against a basket of Asian emerging market currencies, and particularly the exposure to the Taiwanese dollar, detracted from relative performance, as these currencies appreciated against the U.S. dollar.

» Positions in U.S. Treasury Inflation-Protected Securities (TIPS) detracted from relative performance, as breakeven inflation rates fell.

» Short exposure to the French OAT-German Bund spread detracted from relative performance, as the spread tightened.

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, 2017 to June 30, 2017 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 row 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 (01/01/17)	**Ending Account Value (06/30/17)**	**Expenses Paid During Period***	**Beginning Account Value (01/01/17)**	**Ending Account Value (06/30/17)**	**Expenses Paid During Period***	**Net Annualized Expense Ratio****
Institutional Class	$ 1,000.00	$ 1,007.10	$ 2.49	$ 1,000.00	$ 1,022.32	$ 2.51	0.50%
Administrative Class	1,000.00	1,006.40	3.23	1,000.00	1,021.57	3.26	0.65
Advisor Class	1,000.00	1,005.90	3.73	1,000.00	1,021.08	3.76	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 181/365 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.

** Net Annualized Expense Ratio is reflective of any applicable contractual fee waivers and/or expense reimbursements or voluntary fee waivers. Details regarding fee waivers, if any, can be found in Note 9, Fees and Expenses, in the Notes to Financial Statements.

Financial Highlights PIMCO Low Duration Portfolio

		Investment Operations			Less Distributions(b)			
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 Net Investment Income	From Net Realized Capital Gain (Loss)	Tax Basis Return of Capital	Total
Institutional Class								
01/01/2017 - 06/30/2017+	$ 10.24	$ 0.08	$ (0.01)	$ 0.07	$ (0.08)	$ 0.00	$ 0.00	$ (0.08)
12/31/2016	10.25	0.16	0.00	0.16	(0.09)	0.00	(0.08)	(0.17)
12/31/2015	10.58	0.15	(0.10)	0.05	(0.38)	0.00	0.00	(0.38)
12/31/2014	10.61	0.10	0.01	0.11	(0.14)	0.00	0.00	(0.14)
12/31/2013	10.78	0.10	(0.10)	0.00	(0.17)	0.00	0.00	(0.17)
12/31/2012	10.38	0.15	0.47	0.62	(0.22)	0.00	0.00	(0.22)
Administrative Class								
01/01/2017 - 06/30/2017+	10.24	0.07	0.00	0.07	(0.08)	0.00	0.00	(0.08)
12/31/2016	10.25	0.14	0.00	0.14	(0.07)	0.00	(0.08)	(0.15)
12/31/2015	10.58	0.14	(0.11)	0.03	(0.36)	0.00	0.00	(0.36)
12/31/2014	10.61	0.10	(0.01)	0.09	(0.12)	0.00	0.00	(0.12)
12/31/2013	10.78	0.08	(0.09)	(0.01)	(0.16)	0.00	0.00	(0.16)
12/31/2012	10.38	0.14	0.46	0.60	(0.20)	0.00	0.00	(0.20)
Advisor Class								
01/01/2017 - 06/30/2017+	10.24	0.07	(0.01)	0.06	(0.07)	0.00	0.00	(0.07)
12/31/2016	10.25	0.13	0.00	0.13	(0.06)	0.00	(0.08)	(0.14)
12/31/2015	10.58	0.13	(0.11)	0.02	(0.35)	0.00	0.00	(0.35)
12/31/2014	10.61	0.09	(0.01)	0.08	(0.11)	0.00	0.00	(0.11)
12/31/2013	10.78	0.07	(0.10)	(0.03)	(0.14)	0.00	0.00	(0.14)
12/31/2012	10.38	0.13	0.46	0.59	(0.19)	0.00	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, Distributions to Shareholders, in the Notes to Financial Statements for more information.

See Accompanying Notes

		Ratios/Supplemental Data					
			Ratios to Average Net Assets				
Net Asset Value End of Year or Period	Total Return	Net Assets End of Year or Period (000s)	Expenses	Expenses Excluding Waivers	Expenses Excluding Interest Expense	Expenses Excluding Interest Expense and Waivers	Net Investment Income	Portfolio Turnover Rate
$ 10.23	0.71%	$ 15,248	0.50%*	0.50%*	0.50%*	0.50%*	1.55%*	274%
10.24	1.56	8,710	0.50	0.50	0.50	0.50	1.59	391
10.25	0.47	8,291	0.51	0.51	0.50	0.50	1.39	181
10.58	1.00	13,590	0.50	0.50	0.50	0.50	0.96	208
10.61	0.01	58,621	0.50	0.50	0.50	0.50	0.95	316
10.78	6.01	54,192	0.50	0.50	0.50	0.50	1.45	647
10.23	0.64	1,276,293	0.65*	0.65*	0.65*	0.65*	1.40*	274
10.24	1.41	1,248,263	0.65	0.65	0.65	0.65	1.40	391
10.25	0.31	1,323,009	0.66	0.66	0.65	0.65	1.32	181
10.58	0.85	1,481,605	0.65	0.65	0.65	0.65	0.90	208
10.61	(0.14)	1,510,077	0.65	0.65	0.65	0.65	0.79	316
10.78	5.85	1,527,088	0.65	0.65	0.65	0.65	1.29	647
10.23	0.59	752,473	0.75*	0.75*	0.75*	0.75*	1.30*	274
10.24	1.30	717,542	0.75	0.75	0.75	0.75	1.31	391
10.25	0.21	677,728	0.76	0.76	0.75	0.75	1.25	181
10.58	0.75	647,468	0.75	0.75	0.75	0.75	0.80	208
10.61	(0.23)	617,374	0.75	0.75	0.75	0.75	0.69	316
10.78	5.75	532,901	0.75	0.75	0.75	0.75	1.18	647

Statement of Assets and Liabilities PIMCO Low Duration Portfolio

(Unaudited)

(Amounts in thousands, except per share amounts)	June 30, 2017
Assets:	
Investments, at value	
Investments in securities	$ 2,423,392
Investments in Affiliates	158,975
Financial Derivative Instruments	
Exchange-traded or centrally cleared	1,737
Over the counter	6,764
Cash	4,284
Deposits with counterparty	5,920
Foreign currency, at value	1,855
Receivable for investments sold	1,793
Receivable for TBA investments sold	568,105
Receivable for Portfolio shares sold	5,436
Interest and/or dividends receivable	5,828
Dividends receivable from Affiliates	161
Total Assets	3,184,250
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for short sales	$ 4,030
Financial Derivative Instruments	
Exchange-traded or centrally cleared	1,467
Over the counter	26,256
Payable for investments purchased	27,369
Payable for investments in Affiliates purchased	161
Payable for TBA investments purchased	1,076,773
Deposits from counterparty	1,226
Payable for Portfolio shares redeemed	1,711
Accrued investment advisory fees	447
Accrued supervisory and administrative fees	447
Accrued distribution fees	165
Accrued servicing fees	167
Other liabilities	17
Total Liabilities	1,140,236
Net Assets	$ 2,044,014
Net Assets Consist of:	
Paid in capital	$ 2,099,107
(Overdistributed) net investment income	(4,268)
Accumulated undistributed net realized (loss)	(53,065)
Net unrealized appreciation	2,240
Net Assets	$ 2,044,014
Net Assets:	
Institutional Class	$ 15,248
Administrative Class	1,276,293
Advisor Class	752,473
Shares Issued and Outstanding:	
Institutional Class	1,490
Administrative Class	124,703
Advisor Class	73,522
Net Asset Value Per Share Outstanding:	
Institutional Class	$ 10.23
Administrative Class	10.23
Advisor Class	10.23
Cost of investments in securities	$ 2,401,428
Cost of investments in Affiliates	$ 158,925
Cost of foreign currency held	$ 1,819
Proceeds received on short sales	$ 4,051
Cost or premiums of financial derivative instruments, net	$ (275)

Statement of Operations PIMCO Low Duration Portfolio

(Amounts in thousands)	Six Months Ended June 30, 2017 (Unaudited)
Investment Income:	
Interest, net of foreign taxes*	$ 17,977
Dividends from Investments in Affiliates	2,064
Total Income	20,041
Expenses:	
Investment advisory fees	2,445
Supervisory and administrative fees	2,444
Servicing fees - Administrative Class	911
Distribution and/or servicing fees - Advisor Class	914
Trustee fees	27
Interest expense	24
Miscellaneous expense	6
Total Expenses	6,771
Net Investment Income (Loss)	13,270
Net Realized Gain (Loss):	
Investments in securities	(3,342)
Investments in Affiliates	28
Exchange-traded or centrally cleared financial derivative instruments	3,223
Over the counter financial derivative instruments	(1,707)
Foreign currency	1,302
Net Realized (Loss)	(496)
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	35,513
Investments in Affiliates	66
Exchange-traded or centrally cleared financial derivative instruments	(4,721)
Over the counter financial derivative instruments	(30,966)
Foreign currency assets and liabilities	(87)
Net Change in Unrealized (Depreciation)	(195)
Net Increase in Net Assets Resulting from Operations	$ 12,579
* Foreign tax withholdings	$ 6

Statements of Changes in Net Assets PIMCO Low Duration Portfolio

(Amounts in thousands)	Six Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016
Increase (Decrease) in Net Assets from:		
Operations:		
Net investment income	$ 13,270	$ 27,047
Net realized (loss)	(496)	(20,830)
Net change in unrealized appreciation (depreciation)	(195)	19,752
Net Increase in Net Assets Resulting from Operations	12,579	25,969
Distributions to Shareholders:		
From net investment income		
Institutional Class	(79)	(75)
Administrative Class	(8,928)	(9,587)
Advisor Class	(5,041)	(4,536)
Tax basis return of capital		
Institutional Class	0	(62)
Administrative Class	0	(9,447)
Advisor Class	0	(5,132)
Total Distributions[(a)]	(14,048)	(28,839)
Portfolio Share Transactions:		
Net increase (decrease) resulting from Portfolio share transactions**	70,968	(31,643)
Total Increase (Decrease) in Net Assets	69,499	(34,513)
Net Assets:		
Beginning of period	1,974,515	2,009,028
End of period*	$ 2,044,014	$ 1,974,515
* Including undistributed (overdistributed) net investment income of:	$ (4,268)	$ (3,490)

** See Note 13, Shares of Beneficial Interest, 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 is determined at the end of the fiscal year. See Note 2, Distributions to Shareholders, in the Notes to Financial Statements for more information.

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 118.5%		
CORPORATE BONDS & NOTES 41.4%		
BANKING & FINANCE 34.4%		
ABN AMRO Bank NV		
1.800% due 06/04/2018	$ 4,300	$ 4,301
Ally Financial, Inc.		
6.250% due 12/01/2017	2,000	2,037
American Tower Corp.		
2.800% due 06/01/2020	9,900	10,041
AvalonBay Communities, Inc.		
3.625% due 10/01/2020	3,000	3,111
Bank of America Corp.		
2.006% due 09/15/2026	900	837
5.650% due 05/01/2018	8,000	8,253
6.875% due 11/15/2018	2,700	2,875
Bank of Nova Scotia		
1.875% due 04/26/2021	3,900	3,864
Barclays PLC		
3.295% due 08/10/2021	4,900	5,142
BB&T Corp.		
1.873% due 01/15/2020	5,100	5,148
Bear Stearns Cos. LLC		
6.400% due 10/02/2017	1,500	1,517
Black Diamond CLO Ltd.		
1.000% due 02/06/2026 (b)	5,100	5,099
BRFkredit A/S		
1.000% due 01/01/2018	DKK 17,400	2,693
1.000% due 04/01/2018	77,700	12,071
CIT Group, Inc.		
3.875% due 02/19/2019	$ 600	616
Citigroup, Inc.		
1.800% due 02/05/2018	2,500	2,502
1.860% due 04/27/2018	18,200	18,267
2.052% due 07/30/2018	12,000	12,081
2.676% due 03/30/2021	4,300	4,399
Citizens Bank N.A.		
2.300% due 12/03/2018	2,300	2,309
2.500% due 03/14/2019	2,500	2,519
Commonwealth Bank of Australia		
1.750% due 11/02/2018	1,800	1,802
Credit Suisse Group Funding Guernsey Ltd.		
3.448% due 04/16/2021	5,800	6,088
Deutsche Bank AG		
3.095% due 05/10/2019	6,400	6,520
4.250% due 10/14/2021	2,000	2,096
Eksportfinans ASA		
1.570% due 02/14/2018	JPY 500,000	4,477
Ford Motor Credit Co. LLC		
2.104% due 11/04/2019	$ 6,000	6,032
2.146% due 06/15/2018	6,000	6,030
2.375% due 01/16/2018	5,224	5,241
2.735% due 01/08/2019	5,600	5,679
5.750% due 02/01/2021	600	661
General Motors Financial Co., Inc.		
2.085% due 04/13/2020	3,800	3,821
2.515% due 04/10/2018	4,600	4,634
2.718% due 01/15/2020	3,900	3,975
3.000% due 09/25/2017	5,000	5,015
3.200% due 07/13/2020	7,000	7,137
3.218% due 01/15/2019	5,500	5,609
4.750% due 08/15/2017	2,000	2,007
Goldman Sachs Group, Inc.		
2.023% due 12/27/2020	9,600	9,620
2.313% due 04/23/2020	5,684	5,781
2.446% due 09/15/2020	4,500	4,579
2.516% due 04/23/2021	1,300	1,325
6.000% due 06/15/2020	2,000	2,208
7.500% due 02/15/2019	700	760
HSBC Bank PLC		
1.822% due 05/15/2018	500	502
HSBC USA, Inc.		
1.792% due 11/13/2019	12,900	12,920
Hutchison Whampoa International Ltd.		
1.625% due 10/31/2017	7,000	6,987

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
ING Bank NV		
2.050% due 08/17/2018	$ 4,000	$ 4,008
International Lease Finance Corp.		
5.875% due 04/01/2019	1,500	1,594
6.250% due 05/15/2019	2,250	2,414
JPMorgan Chase & Co.		
1.712% due 03/01/2018	3,000	3,008
2.377% due 10/29/2020	5,800	5,927
JPMorgan Chase Bank N.A.		
6.000% due 10/01/2017	1,000	1,010
LeasePlan Corp. NV		
2.500% due 05/16/2018	900	903
3.000% due 10/23/2017	1,200	1,204
Macquarie Bank Ltd.		
2.292% due 07/29/2020	8,900	9,024
Mitsubishi UFJ Financial Group, Inc.		
3.082% due 03/01/2021	1,300	1,358
Morgan Stanley		
2.545% due 02/01/2019	5,600	5,686
MUFG Americas Holdings Corp.		
1.750% due 02/09/2018	3,500	3,501
Nordea Hypotek AB		
2.250% due 06/19/2019	SEK 142,800	17,750
Nordea Kredit Realkreditaktieselskab		
1.000% due 04/01/2018	DKK 125,542	19,504
2.000% due 10/01/2017	58,300	9,006
Nykredit Realkredit A/S		
1.000% due 01/01/2018	167,100	25,893
1.000% due 04/01/2018	319,800	49,723
1.000% due 07/01/2018	183,700	28,634
2.000% due 07/01/2017	54,200	8,332
2.000% due 10/01/2017	44,500	6,874
2.000% due 07/01/2018	15,100	2,365
Pacific Life Global Funding		
3.995% due 06/02/2018	$ 3,500	3,447
Piper Jaffray Cos.		
5.060% due 10/09/2018	1,500	1,522
Realkredit Danmark A/S		
1.000% due 01/01/2018	DKK 199,600	30,903
1.000% due 04/01/2018	474,200	73,722
2.000% due 01/01/2018	118,400	18,407
2.000% due 04/01/2018	135,800	21,239
Royal Bank of Scotland PLC		
6.934% due 04/09/2018	EUR 2,735	3,283
Santander Holdings USA, Inc.		
2.642% due 11/24/2017	$ 3,200	3,213
2.700% due 05/24/2019	3,400	3,427
Skandinaviska Enskilda Banken AB		
3.000% due 06/19/2019	SEK 89,000	11,209
Springleaf Finance Corp.		
6.500% due 09/15/2017	$ 4,900	4,946
Stadshypotek AB		
2.500% due 09/18/2019	SEK 124,000	15,555
Sumitomo Mitsui Banking Corp.		
1.738% due 01/16/2018	$ 12,300	12,330
Sveriges Sakerstallda Obligationer AB		
4.000% due 09/18/2019	SEK 54,000	6,999
Swedbank Hypotek AB		
3.750% due 06/19/2019	53,000	6,773
Synchrony Financial		
2.402% due 02/03/2020	$ 5,600	5,644
2.580% due 11/09/2017	5,800	5,819
UBS AG		
1.375% due 08/14/2017	3,000	3,000
1.539% due 12/07/2018	6,400	6,404
UBS Group Funding Switzerland AG		
2.938% due 04/14/2021	9,900	10,257
Unibail-Rodamco SE		
1.928% due 04/16/2019	9,800	9,772
WEA Finance LLC		
1.750% due 09/15/2017	1,000	1,000
Wells Fargo & Co.		
2.033% due 07/22/2020	2,000	2,031

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
2.558% due 03/04/2021	$ 4,000	$ 4,117
		703,925
INDUSTRIALS 5.0%		
Adani Ports & Special Economic Zone Ltd.		
3.500% due 07/29/2020	4,300	4,345
Aetna, Inc.		
1.869% due 12/08/2017	3,900	3,909
Allergan Funding SCS		
2.308% due 03/12/2018	1,700	1,709
Anheuser-Busch InBev Worldwide, Inc.		
6.500% due 07/15/2018	300	315
Becton Dickinson and Co.		
2.675% due 12/15/2019	784	794
Boston Scientific Corp.		
2.850% due 05/15/2020	2,800	2,841
Canadian Natural Resources Ltd.		
1.750% due 01/15/2018	1,000	1,000
Cardinal Health, Inc.		
1.950% due 06/15/2018	1,000	1,003
Charter Communications Operating LLC		
3.579% due 07/23/2020	3,700	3,826
4.464% due 07/23/2022	600	640
Cox Communications, Inc.		
9.375% due 01/15/2019	400	441
D.R. Horton, Inc.		
3.750% due 03/01/2019	1,900	1,944
Daimler Finance North America LLC		
1.630% due 03/02/2018	2,700	2,704
2.000% due 08/03/2018	6,000	6,016
2.375% due 08/01/2018	900	906
Dell International LLC		
3.480% due 06/01/2019	2,700	2,764
DISH DBS Corp.		
4.625% due 07/15/2017	4,700	4,706
Dominion Energy Gas Holdings LLC		
2.500% due 12/15/2019	2,300	2,317
Energy Transfer LP		
6.700% due 07/01/2018	2,800	2,926
Georgia-Pacific LLC		
5.400% due 11/01/2020	6,800	7,442
Humana, Inc.		
7.200% due 06/15/2018	1,200	1,261
Imperial Brands Finance PLC		
2.050% due 02/11/2018	1,250	1,252
Kinder Morgan, Inc.		
2.000% due 12/01/2017	1,500	1,501
7.250% due 06/01/2018	400	419
KLA-Tencor Corp.		
2.375% due 11/01/2017	500	501
Kraft Heinz Foods Co.		
2.000% due 07/02/2018	1,000	1,003
Local Initiatives Support Corp.		
3.005% due 03/01/2022	1,300	1,300
MGM Resorts International		
8.625% due 02/01/2019	1,000	1,105
Newell Brands, Inc.		
2.600% due 03/29/2019	245	247
Nissan Motor Acceptance Corp.		
1.800% due 03/15/2018	200	200
1.950% due 09/12/2017	400	400
2.350% due 03/04/2019	200	201
Oracle Corp.		
1.900% due 09/15/2021	9,900	9,818
Pioneer Natural Resources Co.		
6.875% due 05/01/2018	300	312
QUALCOMM, Inc.		
3.000% due 05/20/2022	4,600	4,720
Reynolds American, Inc.		
2.300% due 06/12/2018	1,000	1,005
Time Warner Cable LLC		
6.750% due 07/01/2018	1,900	1,988

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
8.750% due 02/14/2019	$ 1,100	$ 1,210
UnitedHealth Group, Inc.		
1.400% due 12/15/2017	1,000	1,000
1.450% due 07/17/2017	1,800	1,800
1.900% due 07/16/2018	1,500	1,506
Volkswagen Group of America Finance LLC		
1.612% due 11/20/2017	7,500	7,506
1.642% due 05/22/2018	1,900	1,902
2.450% due 11/20/2019	4,200	4,226
Walgreens Boots Alliance, Inc.		
1.750% due 11/17/2017	1,700	1,701
WestRock RKT Co.		
4.450% due 03/01/2019	400	415
Whirlpool Corp.		
1.650% due 11/01/2017	1,100	1,100
		102,147
UTILITIES 2.0%		
AES Corp.		
4.202% due 06/01/2019	196	196
AT&T, Inc.		
2.023% due 07/15/2021	5,100	5,156
2.226% due 06/30/2020	7,300	7,399
3.000% due 06/30/2022	500	501
Consumers Energy Co.		
6.700% due 09/15/2019	200	220
DTE Energy Co.		
2.400% due 12/01/2019	3,700	3,719
Kinder Morgan Finance Co. LLC		
6.000% due 01/15/2018	1,500	1,531
Plains All American Pipeline LP		
8.750% due 05/01/2019	700	779
Verizon Communications, Inc.		
2.946% due 03/15/2022	4,759	4,797
2.992% due 09/14/2018	15,300	15,580
		39,878
Total Corporate Bonds & Notes (Cost $823,353)		**845,950**
MUNICIPAL BONDS & NOTES 0.0%		
TEXAS 0.0%		
North Texas Higher Education Authority, Inc., Revenue Bonds, Series 2011		
2.248% due 04/01/2040	272	273
Total Municipal Bonds & Notes (Cost $278)		**273**
U.S. GOVERNMENT AGENCIES 28.0%		
Fannie Mae		
1.000% due 01/25/2043	254	235
1.276% due 12/25/2036 - 07/25/2037	360	354
1.566% due 09/25/2042 - 03/25/2044	320	318
1.716% due 12/25/2022	25	25
1.892% due 07/01/2042 - 06/01/2043	243	247
1.942% due 09/01/2041	165	167
2.016% due 04/25/2023	34	34
2.066% due 02/25/2023	1	1
2.092% due 09/01/2040	1	1
2.109% due 06/17/2027	24	25
2.116% due 05/25/2022	2	2
2.572% due 11/01/2035	37	38
2.803% due 09/01/2035	201	214
3.160% due 07/01/2035	40	42
3.240% due 05/01/2038	3,508	3,712
4.000% due 11/01/2044 - 08/01/2045	134	141
4.295% due 12/01/2036	11	12
4.500% due 03/01/2018 - 08/01/2046	12,843	13,708

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
4.748% due 09/01/2034	$ 6	$ 6
5.000% due 05/01/2027 - 04/25/2033	178	194
5.500% due 12/01/2027 - 12/01/2028	568	629
5.542% due 12/25/2042	7	7
6.000% due 08/01/2017 - 01/01/2039	2,130	2,426
6.500% due 04/01/2036	93	102
Fannie Mae, TBA		
3.000% due 07/01/2047 - 08/01/2047	121,000	120,700
3.500% due 07/01/2047 - 09/01/2047	149,000	152,776
4.000% due 08/01/2047	132,400	138,924
4.500% due 08/01/2047	92,000	98,562
FDIC Structured Sale Guaranteed Notes		
2.980% due 12/06/2020	916	919
Federal Housing Administration		
7.430% due 10/01/2020	1	1
Freddie Mac		
1.256% due 12/25/2036	389	388
1.394% due 12/15/2042	11,432	11,423
1.476% due 08/25/2031	111	109
1.892% due 02/25/2045	218	218
2.000% due 11/15/2026	6,067	6,084
3.021% due 09/01/2035	261	277
3.223% due 07/01/2035	54	57
5.000% due 05/01/2024 - 12/01/2041	485	532
5.500% due 12/01/2022 - 08/15/2030	1	1
6.500% due 07/25/2043	48	56
7.826% due 08/15/2044	4,285	4,860
Ginnie Mae		
1.453% due 06/20/2065	3,627	3,617
1.513% due 10/20/2065	10,238	10,234
1.630% due 02/20/2041	261	262
6.000% due 09/15/2017	4	4
Total U.S. Government Agencies (Cost $573,994)		**572,644**
U.S. TREASURY OBLIGATIONS 4.4%		
U.S. Treasury Inflation Protected Securities (g)		
0.125% due 04/15/2020 (i)(k)	24,748	24,792
0.125% due 04/15/2021 (i)(k)	46,222	46,165
0.125% due 04/15/2022 (k)	11,865	11,812
0.750% due 02/15/2042 (k)	1,948	1,857
1.375% due 02/15/2044 (k)	5,246	5,715
Total U.S. Treasury Obligations (Cost $92,065)		**90,341**
NON-AGENCY MORTGAGE-BACKED SECURITIES 3.0%		
Adjustable Rate Mortgage Trust		
3.598% due 09/25/2035	644	604
American Home Mortgage Investment Trust		
3.277% due 10/25/2034	100	101
3.415% due 02/25/2045	104	106
Banc of America Funding Trust		
1.496% due 07/25/2037	876	818
3.559% due 01/20/2047 ^	320	302
Banc of America Mortgage Trust		
3.329% due 08/25/2034	1,286	1,275
3.713% due 07/25/2034	413	422
3.893% due 05/25/2033	220	224
6.500% due 10/25/2031	6	6
BCAP LLC Trust		
1.237% due 01/26/2036	5,499	5,368
Bear Stearns Adjustable Rate Mortgage Trust		
2.820% due 08/25/2035	699	697
3.081% due 04/25/2033	3	3
3.452% due 01/25/2035	2,486	2,461
3.565% due 01/25/2034	15	15
3.630% due 02/25/2033	1	1
3.636% due 03/25/2035	849	860

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
3.653% due 01/25/2035		$ 103	$ 102
3.679% due 07/25/2034		216	211
Bear Stearns ALT-A Trust			
1.376% due 02/25/2034		342	319
Bear Stearns Structured Products, Inc. Trust			
3.063% due 12/26/2046		448	388
3.421% due 01/26/2036		761	694
Chevy Chase Funding LLC Mortgage-Backed Certificates			
1.496% due 01/25/2035		61	56
Citigroup Commercial Mortgage Trust			
6.385% due 12/10/2049		537	537
Citigroup Global Markets Mortgage Securities, Inc.			
7.000% due 12/25/2018		3	3
Citigroup Mortgage Loan Trust, Inc.			
3.176% due 08/25/2035 ^		419	305
3.430% due 05/25/2035		100	100
Countrywide Alternative Loan Trust			
1.396% due 05/25/2047		383	360
6.000% due 10/25/2033		10	11
Countrywide Home Loan Mortgage Pass-Through Trust			
3.123% due 11/25/2034		424	420
3.136% due 11/20/2034		824	831
3.306% due 02/20/2036 ^		363	325
3.348% due 02/20/2035		485	490
Credit Suisse First Boston Mortgage Securities Corp.			
1.590% due 03/25/2032		1	1
Credit Suisse Mortgage Capital Certificates			
3.200% due 09/26/2047		323	325
Deutsche Mortgage Securities, Inc. Re-REMIC Trust Certificates			
3.366% due 06/26/2035		68	69
Eurosail PLC			
0.000% due 12/10/2044	EUR	120	136
0.990% due 09/13/2045	GBP	523	679
1.240% due 06/13/2045		9,300	12,113
First Horizon Alternative Mortgage Securities Trust			
3.003% due 09/25/2034	$	822	807
First Horizon Mortgage Pass-Through Trust			
3.125% due 02/25/2035		1,517	1,517
3.142% due 08/25/2035		177	154
GE Commercial Mortgage Corp. Trust			
5.483% due 12/10/2049		1,237	1,236
GMAC Mortgage Corp. Loan Trust			
3.573% due 11/19/2035		137	132
Great Hall Mortgages PLC			
1.397% due 06/18/2039		1,729	1,677
GS Mortgage Securities Corp. Trust			
3.980% due 02/10/2029		5,000	5,219
GS Mortgage Securities Trust			
2.412% due 11/10/2045 (a)		2,534	199
GSR Mortgage Loan Trust			
3.109% due 09/25/2035		458	466
3.358% due 09/25/2034		113	114
HarborView Mortgage Loan Trust			
1.649% due 05/19/2035		96	90
3.575% due 07/19/2035		456	407
Impac CMB Trust			
2.216% due 07/25/2033		117	114
JPMorgan Chase Commercial Mortgage Securities Trust			
1.974% due 10/15/2045 (a)		17,085	1,238
JPMorgan Mortgage Trust			
5.750% due 01/25/2036 ^		20	17
Juno Eclipse Ltd.			
0.000% due 11/20/2022	EUR	763	858
Merrill Lynch Mortgage Investors Trust			
1.466% due 11/25/2035	$	121	114
1.876% due 09/25/2029		750	748
2.051% due 10/25/2035		77	73
Opteum Mortgage Acceptance Corp. Asset-Backed Pass-Through Certificates			
1.496% due 12/25/2035		535	500
PHHMC Trust			
5.581% due 07/18/2035		453	455

See Accompanying Notes

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Prime Mortgage Trust		
1.616% due 02/25/2034	$ 6	$ 6
Residential Funding Mortgage Securities, Inc. Trust		
3.526% due 09/25/2035 ^	772	646
RFTI Issuer Ltd.		
2.909% due 08/15/2030	6,090	6,088
Structured Adjustable Rate Mortgage Loan Trust		
2.132% due 01/25/2035	235	212
3.336% due 08/25/2035	192	191
3.350% due 08/25/2034	294	293
3.396% due 02/25/2034	232	234
Structured Asset Mortgage Investments Trust		
1.496% due 02/25/2036 ^	140	129
1.869% due 09/19/2032	3	2
WaMu Mortgage Pass-Through Certificates Trust		
1.462% due 01/25/2047	271	255
1.486% due 12/25/2045	119	116
1.896% due 01/25/2045	714	704
1.932% due 11/25/2042	45	42
2.132% due 06/25/2042	23	22
2.132% due 08/25/2042	99	96
Wells Fargo Commercial Mortgage Trust		
2.154% due 10/15/2045 (a)	3,933	299
Wells Fargo Mortgage-Backed Securities Trust		
3.026% due 12/25/2034	229	231
3.098% due 01/25/2035	269	275
3.107% due 03/25/2036	237	239
3.149% due 03/25/2035	166	168
3.193% due 09/25/2034	3,835	3,924
Total Non-Agency Mortgage-Backed Securities (Cost $64,031)		**62,045**
ASSET-BACKED SECURITIES 9.0%		
ACE Securities Corp. Home Equity Loan Trust		
1.276% due 10/25/2036	108	77
2.116% due 12/25/2034	1,498	1,433
Ally Auto Receivables Trust		
1.490% due 11/15/2019	6,500	6,499
Ameriquest Mortgage Securities, Inc. Asset-Backed Pass-Through Certificates		
1.716% due 09/25/2035	7,100	6,996
Amortizing Residential Collateral Trust		
1.796% due 07/25/2032	13	12
Asset-Backed Funding Certificates Trust		
1.891% due 06/25/2035	7,157	7,160
Asset-Backed Securities Corp. Home Equity Loan Trust		
2.809% due 03/15/2032	95	94
AVANT Loans Funding Trust		
2.960% due 09/16/2019	518	518
3.920% due 08/15/2019	165	165
Babson CLO Ltd.		
2.308% due 10/17/2026	4,000	4,005
Bear Stearns Asset-Backed Securities Trust		
2.216% due 10/25/2037	1,683	1,691
Cadogan Square CLO BV		
0.000% due 01/17/2023	EUR 373	426
Capital Auto Receivables Asset Trust		
1.912% due 11/20/2018	$ 900	900
Cavalry CLO Ltd.		
2.528% due 01/16/2024	1,791	1,793
CIFC Funding Ltd.		
2.173% due 10/24/2025	4,000	4,013
2.568% due 12/05/2024	3,749	3,758
Citigroup Mortgage Loan Trust, Inc.		
1.936% due 09/25/2035 ^	3,506	3,511
Countrywide Asset-Backed Certificates		
1.696% due 12/25/2031 ^	27	22
1.916% due 12/25/2033	1,507	1,460
2.016% due 03/25/2033	958	940
Credit Suisse First Boston Mortgage Securities Corp.		
1.836% due 01/25/2032	7	6
Educational Services of America, Inc.		
2.366% due 09/25/2040	1,222	1,216

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Equity One Mortgage Pass-Through Trust		
1.776% due 11/25/2032	$ 2	$ 2
First Franklin Mortgage Loan Trust		
1.936% due 05/25/2035	209	209
Ford Credit Auto Lease Trust		
1.299% due 11/15/2019	3,900	3,903
1.560% due 11/15/2019	2,600	2,601
Fortress Credit Investments Ltd.		
2.408% due 07/17/2023	1,793	1,792
GE-WMC Mortgage Securities Trust		
1.256% due 08/25/2036	10	6
GM Financial Automobile Leasing Trust		
1.510% due 03/16/2020	5,600	5,599
1.712% due 10/22/2018	7,898	7,910
GSAMP Trust		
1.606% due 01/25/2036	1,067	1,032
ICG U.S. CLO Ltd.		
2.348% due 10/15/2026	3,700	3,700
JMP Credit Advisors CLO Ltd.		
2.398% due 10/17/2025	4,900	4,911
JPMorgan Mortgage Acquisition Corp.		
1.396% due 02/25/2036	501	498
1.446% due 05/25/2035	5,896	5,874
LCM LP		
2.418% due 10/19/2022	2,209	2,215
Lime Street CLO Ltd.		
1.514% due 06/20/2021	3,464	3,453
Madison Park Funding Ltd.		
1.420% due 02/26/2021	842	843
Malin CLO BV		
0.000% due 05/07/2023	EUR 3,859	4,397
Massachusetts Educational Financing Authority		
2.106% due 04/25/2038	$ 383	382
Motor PLC		
1.816% due 06/25/2022	2,258	2,260
Navient Private Education Loan Trust		
2.359% due 12/15/2028	2,074	2,104
NYMT Residential		
4.000% due 03/25/2021	1,465	1,458
Octagon Investment Partners Ltd.		
2.105% due 10/25/2025	6,200	6,202
2.258% due 04/15/2026	4,000	3,996
OZLM Funding Ltd.		
2.288% due 01/17/2026	4,900	4,909
Panhandle-Plains Higher Education Authority, Inc.		
2.278% due 10/01/2035	1,034	1,032
Panther CDO BV		
0.027% due 03/20/2084	EUR 737	840
Prestige Auto Receivables Trust		
1.460% due 07/15/2020	$ 5,255	5,243
RAAC Trust		
1.696% due 03/25/2037	402	401
Renaissance Home Equity Loan Trust		
1.716% due 12/25/2033	3,098	3,053
Residential Asset Securities Corp. Trust		
1.536% due 01/25/2036	441	442
2.101% due 01/25/2034	3,561	3,477
Santander Drive Auto Receivables Trust		
1.490% due 02/18/2020	4,900	4,897
SLC Student Loan Trust		
1.346% due 09/15/2026	3,857	3,849
SLM Private Credit Student Loan Trust		
1.436% due 12/15/2023	168	167
SLM Student Loan Trust		
1.246% due 10/25/2024	2,745	2,741
2.656% due 04/25/2023	399	408
SoFi Consumer Loan Program LLC		
3.050% due 12/26/2025	4,297	4,339
South Carolina Student Loan Corp.		
1.952% due 03/02/2020	432	433
Specialty Underwriting & Residential Finance Trust		
1.606% due 12/25/2036	4,800	4,693

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Structured Asset Investment Loan Trust		
1.921% due 03/25/2034	$ 561	$ 545
2.191% due 10/25/2033	444	443
Telos CLO Ltd.		
2.808% due 04/17/2025	5,369	5,385
Tralee CLO Ltd.		
2.606% due 07/20/2026	5,000	5,023
VOLT LLC		
3.375% due 04/25/2047	2,867	2,872
4.375% due 11/27/2045	2,047	2,059
Voya CLO Ltd.		
2.458% due 10/15/2022	2,131	2,129
2.478% due 10/15/2022	2,646	2,649
Wells Fargo Home Equity Asset-Backed Securities Trust		
1.476% due 05/25/2036	1,100	1,077
Westlake Automobile Receivables Trust		
1.780% due 04/15/2020	4,400	4,403
WhiteHorse Ltd.		
2.370% due 02/03/2025	4,086	4,089
Total Asset-Backed Securities (Cost $178,216)		**183,640**
SOVEREIGN ISSUES 5.2%		
Autonomous Community of Catalonia		
4.750% due 06/04/2018	EUR 2,700	3,203
Brazil Letras do Tesouro Nacional		
0.000% due 01/01/2018 (e)	BRL 125,100	36,187
0.000% due 04/01/2018 (e)	157,900	44,772
0.000% due 07/01/2018 (e)	31,800	8,832
Province of Ontario		
1.100% due 10/25/2017	$ 13,600	13,589
Total Sovereign Issues (Cost $108,814)		**106,583**
	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 27.5%		
CERTIFICATES OF DEPOSIT 1.2%		
Barclays Bank PLC		
1.710% due 03/16/2018	$ 15,300	15,298
1.973% due 12/06/2017	9,900	9,922
		25,220
COMMERCIAL PAPER 18.1%		
AutoNation, Inc.		
1.700% due 07/07/2017	4,100	4,099
BAT International Finance PLC		
1.410% due 07/05/2017	3,500	3,499
1.450% due 07/25/2017	7,300	7,293
1.450% due 07/27/2017	12,300	12,286
1.470% due 08/02/2017	6,600	6,591
Bell Canada		
1.350% due 07/18/2017	11,300	11,292
Berkshire Hathaway Energy Co.		
1.320% due 07/26/2017	12,300	12,287
Boston Scientific Corp.		
1.650% due 07/18/2017	12,200	12,191
1.800% due 09/25/2017	10,500	10,461
Caisse d'Amortissement de la Dette Sociale		
1.360% due 10/02/2017	12,200	12,160
CRH America Finance, Inc.		
1.390% due 07/21/2017	7,400	7,394

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Deutsche Telekom AG		
1.300% due 07/05/2017	$ 11,000	$ 10,998
1.350% due 07/24/2017	13,200	13,187
ENI Finance USA, Inc.		
1.400% due 07/12/2017	11,300	11,295
1.500% due 07/17/2017	11,000	10,993
1.980% due 05/07/2018	7,900	7,780
Entergy Corp.		
1.440% due 07/14/2017	2,800	2,798
1.440% due 07/19/2017	5,800	5,795
Enterprise Products Operating LLC		
1.370% due 07/12/2017	3,200	3,198
Exelon Generation Co. LLC		
1.500% due 07/17/2017	12,200	12,192
Glencore Funding LLC		
1.380% due 07/25/2017	6,700	6,692
1.380% due 07/27/2017	10,000	9,987
1.400% due 07/28/2017	12,300	12,284
Hewlett Packard Enterprise Co.		
1.400% due 07/27/2017	11,900	11,890
HP, Inc.		
1.480% due 07/25/2017	12,200	12,191
1.480% due 07/26/2017	12,300	12,290
Marriott International		
1.500% due 07/24/2017	5,100	5,095
Mondelez International, Inc.		
1.250% due 07/03/2017	12,200	12,199
1.410% due 07/25/2017	3,200	3,197
Monsanto Co.		
1.540% due 08/14/2017	12,200	12,177
1.750% due 07/31/2017	4,700	4,694
Plains All American Pipeline LP		
2.150% due 07/26/2017	12,300	12,287
Rogers Communications, Inc.		
1.440% due 08/03/2017	13,400	13,381
Sempra Energy Holdings		
1.420% due 07/26/2017	$ 10,700	$ 10,689
Southern Co.		
1.350% due 07/07/2017	10,700	10,697
TELUS Corp.		
1.550% due 09/25/2017	10,600	10,561
1.550% due 09/26/2017	1,700	1,694
Thermo Fisher Scientific, Inc.		
1.430% due 08/15/2017	11,300	11,278
TransCanada American, Inc.		
1.450% due 07/12/2017	5,100	5,097
Viacom, Inc.		
1.800% due 08/04/2017	6,900	6,890
VW CR, Inc.		
1.400% due 07/10/2017	6,900	6,897
		369,956
SHORT-TERM NOTES 0.3%		
Hewlett Packard Enterprise Co.		
2.450% due 10/05/2017	1,967	1,973
3.039% due 10/05/2017	4,100	4,113
		6,086
ARGENTINA TREASURY BILLS 0.3%		
3.350% due 04/27/2018 (e)(f)	5,600	5,469
JAPAN TREASURY BILLS 6.5%		
(0.123)% due 08/14/2017 - 09/19/2017 (d)(e)	JPY 14,940,000	132,845
MEXICO TREASURY BILLS 1.1%		
6.968% due 11/30/2017 - 03/01/2018 (d)(e)	MXN 420,400	$ 22,340
Total Short-Term Instruments (Cost $560,677)		**561,916**
Total Investments in Securities (Cost $2,401,428)		**2,423,392**
	SHARES	
INVESTMENTS IN AFFILIATES 7.8%		
SHORT-TERM INSTRUMENTS 7.8%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 7.8%		
PIMCO Short-Term Floating NAV Portfolio III	5,170,231	51,113
PIMCO Short-Term Floating NAV Portfolio IV	10,779,734	107,862
Total Short-Term Instruments (Cost $158,925)		**158,975**
Total Investments in Affiliates (Cost $158,925)		**158,975**
Total Investments 126.3% (Cost $2,560,353)		**$ 2,582,367**
Financial Derivative Instruments (h)(j) (0.9)% (Cost or Premiums, net $(275))		**(19,222)**
Other Assets and Liabilities, net (25.4)%		**(519,131)**
Net Assets 100.0%		**$ 2,044,014**

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) Coupon represents a weighted average yield to maturity.

(e) Zero coupon security.

(f) Coupon represents a yield to maturity.

(g) Principal amount of security is adjusted for inflation.

BORROWINGS AND OTHER FINANCING TRANSACTIONS

SHORT SALES:

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales
U.S. Government Agencies (0.2)%					
Fannie Mae, TBA	5.000%	08/01/2047	$ 100	$ (109)	$ (109)
Fannie Mae, TBA	6.000	07/01/2047	3,000	(3,396)	(3,377)
Freddie Mac, TBA	5.000	07/01/2047	500	(546)	(544)
Total Short Sales (0.2)%				**$ (4,051)**	**$ (4,030)**

The average amount of borrowings outstanding during the period ended June 30, 2017 was $(436) at a weighted average interest rate of 1.250%. Average borrowings may include sale-buyback transactions and reverse repurchase agreements, if held during the period.

(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 - CME 90-Day Eurodollar March Futures	$ 98.250	03/19/2018	976	$ 83	$ 79
Total Purchased Options				**$ 83**	**$ 79**

WRITTEN OPTIONS:

OPTIONS ON EXCHANGE-TRADED FUTURES CONTRACTS

Description	Strike Price	Expiration Date	# of Contracts	Premiums (Received)	Market Value
Call - CME 90-Day Eurodollar March Futures	$ 98.750	03/19/2018	976	$ (105)	$ (37)
Total Written Options				**$ (105)**	**$ (37)**

FUTURES CONTRACTS:

LONG FUTURES CONTRACTS

Description	Expiration Month	# of Contracts	Notional Amount	Unrealized Appreciation/ (Depreciation)	Variation Margin	
					Asset	Liability
90-Day Eurodollar December Futures	12/2018	621	$ 152,456	$ 232	$ 0	$ (47)
90-Day Eurodollar June Futures	06/2018	10	2,459	3	0	(1)
90-Day Eurodollar March Futures	03/2019	610	149,671	534	0	(53)
90-Day Eurodollar September Futures	09/2018	722	177,413	499	0	(54)
90-Day Eurodollar September Futures	09/2019	835	204,638	485	0	(83)
Euro-Bund 10-Year Bond September Futures	09/2017	524	EUR 96,877	(1,440)	0	(946)
U.S. Treasury 2-Year Note September Futures	09/2017	2,615	$ 565,126	(705)	0	(245)
				$ (392)	$ 0	$ (1,429)

SHORT FUTURES CONTRACTS

Description	Expiration Month	# of Contracts	Notional Amount	Unrealized Appreciation/ (Depreciation)	Variation Margin	
					Asset	Liability
90-Day Eurodollar December Futures	12/2017	67	$ (16,503)	$ (10)	$ 3	$ 0
90-Day Eurodollar September Futures	09/2017	434	(107,030)	(38)	5	0
Euro-OAT France Government 10-Year Bond September Futures	09/2017	741	EUR (125,664)	764	1,100	0
U.S. Treasury 5-Year Note September Futures	09/2017	588	$ (69,288)	141	101	0
U.S. Treasury 30-Year Bond September Futures	09/2017	95	(14,600)	(158)	54	0
				$ 699	$ 1,263	$ 0
Total Futures Contracts				**$ 307**	**$ 1,263**	**$ (1,429)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - SELL PROTECTION[1]

Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2017[2]	Notional Amount[3]	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value	Variation Margin	
								Asset	Liability
Berkshire Hathaway, Inc.	1.000%	12/20/2023	0.700%	$ 1,000	$ (11)	$ 30	$ 19	$ 0	$ (1)
MetLife, Inc.	1.000	03/20/2019	0.155	1,700	22	3	25	0	0
Prudential Financial, Inc.	1.000	09/20/2019	0.175	8,400	125	31	156	0	0
Volkswagen International Finance NV	1.000	12/20/2017	0.108	EUR 3,200	24	(7)	17	0	0
Volkswagen International Finance NV	1.000	12/20/2018	0.193	1,700	18	6	24	0	0
					$ 178	$ 63	$ 241	$ 0	$ (1)

INTEREST RATE SWAPS

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value	Variation Margin Asset	Variation Margin Liability
Receive	3-Month USD-LIBOR	1.250%	06/21/2020	$ 71,600	$ 1,635	$ (610)	$ 1,025	$ 65	$ 0
Receive	3-Month USD-LIBOR	1.250	06/21/2021	36,400	1,110	(262)	848	49	0
Receive[(4)]	3-Month USD-LIBOR	1.450	06/28/2021	65,000	1,047	(227)	820	59	0
Pay	3-Month USD-LIBOR	1.250	06/21/2022	7,800	326	(63)	263	15	0
Receive[(4)]	6-Month GBP-LIBOR	1.500	09/20/2027	GBP 16,100	(404)	139	(265)	207	0
					$ 3,714	$ (1,023)	$ 2,691	$ 395	$ 0
Total Swap Agreements					**$ 3,892**	**$ (960)**	**$ 2,932**	**$ 395**	**$ (1)**

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, 2017:

	Financial Derivative Assets				Financial Derivative Liabilities			
	Market Value	Variation Margin Asset			Market Value	Variation Margin Liability		
	Purchased Options	Futures	Swap Agreements	Total	Written Options	Futures	Swap Agreements	Total
Total Exchange-Traded or Centrally Cleared	**$ 79**	**$ 1,263**	**$ 395**	**$ 1,737**	**$ (37)**	**$ (1,429)**	**$ (1)**	**$ (1,467)**

(i) Securities with an aggregate market value of $9,213 and cash of $5,931 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of June 30, 2017. See Note 8, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

(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, 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) 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 indicators 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) This instrument has a forward starting effective date. See Note 2, Securities Transactions and Investment Income, in the Notes to Financial Statements for further information.

(j) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

FORWARD FOREIGN CURRENCY CONTRACTS:

Counterparty	Settlement Month	Currency to be Delivered	Currency to be Received	Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
BOA	07/2017	DKK 3,518	$ 516	$ 0	$ (25)
	07/2017	EUR 16,014	18,000	0	(291)
	01/2018	DKK 169,094	24,737	0	(1,506)
	04/2018	345,161	50,578	0	(3,287)
	07/2018	111,105	17,180	0	(253)
BPS	07/2017	674	102	0	(2)
	07/2017	EUR 5,441	6,189	0	(25)
	07/2017	JPY 4,515,800	40,338	188	0
	08/2017	$ 6,198	EUR 5,441	25	0
	08/2017	40,385	JPY 4,515,800	0	(189)
	09/2017	JPY 4,480,000	$ 40,883	922	0
	01/2018	DKK 121,035	17,653	0	(1,132)
	01/2018	$ 103	DKK 674	2	0
	03/2018	MXN 138,400	$ 6,618	0	(738)
	04/2018	BRL 77,100	20,421	0	(1,799)
	04/2018	DKK 209,863	30,918	0	(1,833)
	07/2018	93,010	14,029	0	(566)
BRC	07/2017	55,284	8,433	0	(58)
CBK	07/2017	BRL 59,856	18,111	43	0
	07/2017	DKK 3,176	479	0	(9)

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
	07/2017	GBP	9,860	$	12,687	$ 0	$ (155)
	07/2017	$	18,093	BRL	59,856	0	(26)
	08/2017		18,002		59,856	0	(41)
	10/2017		15,575	DKK	106,912	929	0
	01/2018	DKK	90,022	$	13,313	0	(659)
	07/2018	$	489	DKK	3,176	10	0
DUB	07/2017		1,840	CHF	1,762	0	(3)
	08/2017	SEK	233,215	$	26,888	0	(857)
FBF	07/2017	$	225	INR	14,797	3	0
	09/2017	KRW	43,275,372	$	38,331	503	0
GLM	07/2017	BRL	59,856		18,093	26	0
	07/2017	DKK	4,631		698	0	(13)
	07/2017	EUR	235		264	0	(4)
	07/2017	JPY	507,100		4,580	71	0
	07/2017	$	18,017	BRL	59,856	51	0
	07/2017		1,017	EUR	903	15	0
	07/2017		16,250	GBP	12,773	386	0
	07/2017		18,810	JPY	2,085,500	0	(268)
	08/2017	SEK	137,345	$	15,797	0	(542)
	10/2017	DKK	104,708		15,207	0	(957)
	04/2018		68,882		10,070	0	(679)
	04/2018	$	709	DKK	4,631	13	0
HUS	07/2017		2,251	CHF	2,178	20	0
	09/2017	SGD	34,195	$	24,777	0	(89)
	10/2017	DKK	64,974		9,950	0	(80)
	01/2018	BRL	36,700		10,803	78	0
	04/2018		80,800		23,795	508	0
	04/2018	DKK	39,462		5,874	0	(284)
JPM	07/2017	EUR	537		603	0	(11)
	07/2017	$	29,509	EUR	26,276	502	0
	07/2017		20,633	GBP	16,189	453	0
	07/2017		101	ILS	356	2	0
	07/2017		26,737	JPY	2,937,400	0	(621)
	08/2017	JPY	3,460,000	$	31,298	475	0
	08/2017	SEK	133,830		15,496	0	(425)
	08/2017	$	14,460	EUR	12,663	23	0
	10/2017	BRL	25,600	$	7,240	0	(350)
	10/2017	$	7,705	BRL	25,600	0	(115)
	01/2018	BRL	83,500	$	24,344	476	(533)
	01/2018	DKK	129,232		18,903	0	(1,154)
	04/2018		107,122		15,947	0	(770)
	07/2018	BRL	31,800		9,289	259	0
MSB	09/2017	$	121	MYR	520	0	(1)
NGF	11/2017	MXN	282,000	$	13,677	0	(1,511)
	01/2018	BRL	68,200		20,095	165	0
SCX	04/2018	DKK	279,881		41,759	0	(1,919)
TOR	10/2017		9,860		1,521	0	(1)
	04/2018		99,990		14,622	0	(983)
UAG	07/2017	GBP	19,102		24,481	0	(398)
	08/2017	JPY	7,000,000		61,527	0	(813)
	08/2017	$	24,503	GBP	19,102	398	0
	09/2017	THB	10,231	$	302	1	0
	09/2017	TWD	1,790,440		59,034	131	0
	10/2017	DKK	40,030		6,110	0	(70)
Total Forward Foreign Currency Contracts						**$ 6,678**	**$ (26,045)**

WRITTEN OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
FBF	Call - OTC USD versus BRL	BRL 3.550	10/02/2017	$ 7,300	$ (110)	$ (86)
JPM	Call - OTC USD versus BRL	3.510	09/27/2017	9,500	(147)	(125)
					$ (257)	$ (211)
Total Written Options					**$ (257)**	**$ (211)**

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED JUNE 30, 2017:

	Balance at Beginning of Period	Sales	Closing Buys	Expirations	Exercised	Balance at End of Period
# of Contracts	0	1,806	0	(647)	(183)	976
Notional Amount in $	$ 56,000	$ 165,900	$ 0	$ (205,100)	$ 0	$ 16,800
Premiums	$ (342)	$ (1,581)	$ 0	$ 1,518	$ 43	$ (362)

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, 2017[2]	Notional Amount[3]	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BRC	Mexico Government International Bond	1.000%	03/20/2018	0.223%	$ 4,300	$ (7)	$ 33	$ 26	$ 0
JPM	PSEG Power LLC	1.000	12/20/2018	0.564	1,700	11	0	11	0
						$ 4	$ 33	$ 37	$ 0

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/ (Depreciation)	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	1	1	0
					$ 0	$ 2	$ 2	$ 0

INTEREST RATE SWAPS

Counterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Pay	CPURNSA	0.000%	06/02/2018	$ 116,900	$ 0	$ 26	$ 26	$ 0
	Pay	CPURNSA	0.000	06/07/2018	35,900	0	16	16	0
MYC	Pay	CPURNSA	0.000	06/03/2018	42,800	0	5	5	0
						$ 0	$ 47	$ 47	$ 0
Total Swap Agreements						**$ 4**	**$ 82**	**$ 86**	**$ 0**

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 pledged/(received) as of June 30, 2017:

	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 Pledged/ (Received)	Net Exposure[5]
BOA	$ 0	$ 0	$ 42	$ 42	$ (5,362)	$ 0	$ 0	$ (5,362)	$ (5,320)	$ 5,663	$ 343
BPS	1,137	0	0	1,137	(6,284)	0	0	(6,284)	(5,147)	5,191	44
BRC	0	0	26	26	(58)	0	0	(58)	(32)	0	(32)
CBK	982	0	0	982	(890)	0	0	(890)	92	(340)	(248)
DUB	0	0	0	0	(860)	0	0	(860)	(860)	684	(176)
FBF	506	0	0	506	0	(86)	0	(86)	420	(340)	80
GLM	562	0	0	562	(2,463)	0	0	(2,463)	(1,901)	1,792	(109)
GST	0	0	1	1	0	0	0	0	1	(10)	(9)
HUS	606	0	0	606	(453)	0	0	(453)	153	(100)	53
JPM	2,190	0	12	2,202	(3,979)	(125)	0	(4,104)	(1,902)	2,058	156
MSB	0	0	0	0	(1)	0	0	(1)	(1)	0	(1)
MYC	0	0	5	5	0	0	0	0	5	(60)	(55)
NGF	165	0	0	165	(1,511)	0	0	(1,511)	(1,346)	1,567	221
SCX	0	0	0	0	(1,919)	0	0	(1,919)	(1,919)	1,727	(192)
TOR	0	0	0	0	(984)	0	0	(984)	(984)	819	(165)
UAG	530	0	0	530	(1,281)	0	0	(1,281)	(751)	980	229
Total Over the Counter	**$ 6,678**	**$ 0**	**$ 86**	**$ 6,764**	**$ (26,045)**	**$ (211)**	**$ 0**	**$ (26,256)**			

(k) Securities with an aggregate market value of $20,481 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of June 30, 2017.

See Accompanying Notes

(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, 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) 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 indicators 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 indicators 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.

(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 8, Master Arrangements, 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 8, 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, 2017:

	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						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ 79	$ 79
Futures	0	0	0	0	1,263	1,263
Swap Agreements	0	0	0	0	395	395
	$ 0	$ 0	$ 0	$ 0	$ 1,737	$ 1,737
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 6,678	$ 0	$ 6,678
Swap Agreements	0	39	0	0	47	86
	$ 0	$ 39	$ 0	$ 6,678	$ 47	$ 6,764
	$ 0	$ 39	$ 0	$ 6,678	$ 1,784	$ 8,501
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 0	$ 0	$ 0	$ 37	$ 37
Futures	0	0	0	0	1,429	1,429
Swap Agreements	0	1	0	0	0	1
	$ 0	$ 1	$ 0	$ 0	$ 1,466	$ 1,467
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 26,045	$ 0	$ 26,045
Written Options	0	0	0	211	0	211
	$ 0	$ 0	$ 0	$ 26,256	$ 0	$ 26,256
	$ 0	$ 1	$ 0	$ 26,256	$ 1,466	$ 27,723

The effect of Financial Derivative Instruments on the Statement of Operations for the period ended June 30, 2017:

	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						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ (76)	$ (76)
Written Options	0	0	0	0	147	147
Futures	0	0	0	0	(2,120)	(2,120)
Swap Agreements	0	192	0	0	5,080	5,272
	$ 0	$ 192	$ 0	$ 0	$ 3,031	$ 3,223

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (3,809)	$ 0	$ (3,809)
Purchased Options	0	0	0	0	(89)	(89)
Written Options	0	0	0	897	475	1,372
Swap Agreements	0	819	0	0	0	819
	$ 0	$ 819	$ 0	$ (2,912)	$ 386	$ (1,707)
	$ 0	$ 1,011	$ 0	$ (2,912)	$ 3,417	$ 1,516

Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments

	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Exchange-traded or centrally cleared						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ (4)	$ (4)
Written Options	0	0	0	0	68	68
Futures	0	0	0	0	824	824
Swap Agreements	0	0	0	0	(5,609)	(5,609)
	$ 0	$ 0	$ 0	$ 0	$ (4,721)	$ (4,721)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (28,668)	$ 0	$ (28,668)
Written Options	0	0	0	(148)	(108)	(256)
Swap Agreements	0	(624)	0	0	(1,418)	(2,042)
	$ 0	$ (624)	$ 0	$ (28,816)	$ (1,526)	$ (30,966)
	$ 0	$ (624)	$ 0	$ (28,816)	$ (6,247)	$ (35,687)

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of June 30, 2017 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2017
Investments in Securities, at Value				
Corporate Bonds & Notes				
Banking & Finance	$ 0	$ 698,826	$ 5,099	$ 703,925
Industrials	0	102,147	0	102,147
Utilities	0	39,878	0	39,878
Municipal Bonds & Notes				
Texas	0	273	0	273
U.S. Government Agencies	0	572,643	1	572,644
U.S. Treasury Obligations	0	90,341	0	90,341
Non-Agency Mortgage-Backed Securities	0	61,657	388	62,045
Asset-Backed Securities	0	183,640	0	183,640
Sovereign Issues	0	106,583	0	106,583
Short-Term Instruments				
Certificates of Deposit	0	25,220	0	25,220
Commercial Paper	0	369,956	0	369,956
Short-Term Notes	0	6,086	0	6,086
Argentina Treasury Bills	0	5,469	0	5,469
Japan Treasury Bills	0	132,845	0	132,845
Mexico Treasury Bills	0	22,340	0	22,340
	$ 0	$ 2,417,904	$ 5,488	$ 2,423,392
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 158,975	$ 0	$ 0	$ 158,975
Total Investments	$ 158,975	$ 2,417,904	$ 5,488	$ 2,582,367

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2017
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (4,030)	$ 0	$ (4,030)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	1,342	395	0	1,737
Over the counter	0	6,764	0	6,764
	$ 1,342	$ 7,159	$ 0	$ 8,501
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(1,466)	(1)	0	(1,467)
Over the counter	0	(26,256)	0	(26,256)
	$ (1,466)	$ (26,257)	$ 0	$ (27,723)
Total Financial Derivative Instruments	$ (124)	$ (19,098)	$ 0	$ (19,222)
Totals	$ 158,851	$ 2,394,776	$ 5,488	$ 2,559,115

There were no significant transfers among Levels 1, 2, or 3 during the period ended June 30, 2017.

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 beyond a standard settlement period for the security 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, if any, are recorded as components of interest income on the Statement of Operations. Income or short-term capital gain distributions received from registered investment companies, if any, are recorded as dividend income. Long-term capital gain distributions received from registered investment companies, if any, 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. 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) Distributions to Shareholders Distributions 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 distributions 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. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting. As a result, income distributions 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.

If the Portfolio estimates that a portion of one of its dividend distributions may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Portfolio will notify shareholders of record of the estimated composition of such distribution through a Section 19 Notice. For these purposes, the Portfolio estimates the source or sources from which a distribution is paid, to the close of the period as of which it is paid, in reference to its internal accounting records and related accounting practices. If, based on such accounting records and practices, it is estimated that a particular distribution does not include capital gains or paid-in surplus or other capital sources, a Section 19 Notice generally would not be issued. It is important to note that differences exist between the Portfolio's daily internal accounting records and practices, the Portfolio's financial statements presented in accordance with U.S. GAAP, and recordkeeping practices under income tax regulations. For instance, the Portfolio's internal accounting records and practices may take into account, among other factors, tax-related characteristics of certain sources of distributions that differ from treatment under U.S. GAAP. Examples of such differences may include, among others, the treatment of paydowns on mortgage-backed securities purchased at a discount and periodic payments under interest rate swap contracts. Accordingly, among other consequences, it is possible that the Portfolio may not issue a Section 19 Notice in situations where the Portfolio's financial statements prepared later and in accordance with U.S. GAAP and/or the final tax character of those distributions might later report that the sources of those distributions included capital gains and/or a return of capital. Final determination of a distribution's tax character will be provided to shareholders when such information is available.

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 U.S. GAAP to tax characterizations of distributions.

(e) New Accounting Pronouncements In March 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), ASU 2016-05 which provides guidance related to the impact of derivative contract novations on certain relationships under Accounting Standards Codification ("ASC") 815. The ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Portfolio has adopted the ASU. The implementation of the ASU did not have an impact on the Portfolio's financial statements.

In August 2016, the FASB issued ASU 2016-15 which amends ASC 230 to clarify guidance on the classification of certain cash receipts and cash payments in the Statement of Cash Flows. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

In October 2016, the U.S. Securities and Exchange Commission ("SEC") adopted new rules and forms, and amendments to certain current rules and forms, to modernize reporting and disclosure of information by registered investment companies. The amendments to Regulation S-X will require standardized, enhanced disclosure about derivatives in investment company financial statements, and will also change the rules governing the form and content of such financial statements. The compliance date for these amendments is August 1, 2017. Compliance is based on reporting period-end date. At this time, management is evaluating the implications of these changes on the financial statements.

In November 2016, the FASB issued ASU 2016-18 which amends ASC 230 to provide guidance on the classification and presentation of changes in restricted cash and restricted cash equivalents on the Statement of Cash Flows. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

In March 2017, the FASB issued ASU 2017-08 which provides guidance related to the amortization period for certain purchased callable debt securities held at a premium. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The Portfolio has adopted the ASU. The implementation of 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, less any liabilities attributable to the Portfolio or class, 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 as of which 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. If market value pricing is used, 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. The Portfolio's investments in open-end management investment companies, other than exchange-traded funds ("ETFs"), are valued at 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 foreign (non-U.S.) securities. Foreign 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 the 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 the Portfolio could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by the Portfolio may differ from the value that would be realized if the securities were sold. The Portfolio's use of fair valuation may also help to deter "stale price arbitrage" as discussed under the "Frequent or Excessive Purchases, Exchanges and Redemptions" section in the Portfolio's prospectus.

(b) Fair Value Hierarchy U.S. GAAP describes fair value as the price that the Portfolio would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, or 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

- Level 1 — 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 value 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.

Equity exchange-traded options and over the counter financial derivative instruments, such as forward foreign currency contracts and options contracts derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. These contracts are normally valued on the basis of 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 and over the counter swaps derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. They are valued using a broker-dealer bid quotation or on market-based prices provided by Pricing Services (normally determined as of the NYSE close). Centrally cleared swaps and over the counter swaps can be valued by Pricing Services using a series of techniques, including simulation pricing models. The pricing models may use inputs that are observed from actively quoted markets such as the overnight index swap rate ("OIS"), London Interbank Offered Rate ("LIBOR") forward rate, interest rates, yield curves and credit spreads. 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.

Short-term debt instruments (such as commercial paper) having a remaining maturity of 60 days or less may be valued at amortized cost, so long as the amortized cost value of such short-term debt instruments is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. These securities are categorized as Level 2 or Level 3 of the fair value hierarchy depending on the source of the base price.

4. SECURITIES AND OTHER INVESTMENTS

(a) Investments in Affiliates

The Portfolio may invest in the PIMCO Short-Term Floating NAV Portfolio III and the PIMCO Short-Term Floating NAV Portfolio IV ("Central Funds") to the extent permitted by the Act and rules thereunder. The Central Funds are registered investment companies created for use solely by the series of the Trust and other series of registered investment companies advised by the Adviser, in connection with their cash management activities. The main investments of the Central Funds are money market and short maturity fixed income instruments. The Central Funds may incur expenses related to its investment activities, but do not pay Investment Advisory Fees or Supervisory and Administrative Fees to the Adviser. The Central Funds are considered to be affiliated with the Portfolio. The tables below show the Portfolio's transactions in and earnings from investments in an affiliated Fund for the period ended June 30, 2017 (amounts in thousands†):

Investment in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2016	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 06/30/2017	Dividend Income(1)	Realized Net Capital Gain Distributions(1)
$ 322,117	$ 916,851	$ (1,187,900)	$ 28	$ 17	$ 51,113	$ 1,951	$ 0

Investment in PIMCO Short-Term Floating NAV Portfolio IV

Market Value 12/31/2016	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 06/30/2017	Dividend Income(1)	Realized Net Capital Gain Distributions(1)
$ 0	$ 107,813	$ 0	$ 0	$ 49	$ 107,862	$ 113	$ 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 of the affiliated fund. See Note 2, Distributions to Shareholders, 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 by 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. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. TIPS. For bonds that do not provide a similar guarantee, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

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) 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.

(b) Short Sales The Portfolio may enter into short sales transactions. Short sales are transactions in which the Portfolio sells a security that it may not own. The Portfolio may make short sales of securities to (i) offset potential declines in long positions in similar securities, (ii) to increase the flexibility of the Portfolio, (iii) for investment return, (iv) as part of a risk arbitrage strategy, and (v) as part of its overall portfolio management strategies involving the use of derivative instruments. When the Portfolio engages in a short sale, it may borrow the security sold short and deliver it to the counterparty. The Portfolio will ordinarily have to pay a fee or premium to borrow a security and be obligated to repay the lender of the security any dividend or interest that accrues on the security during the period of the loan. Securities sold in short sale transactions and the dividend or interest payable on such securities, if any, are reflected as payable for short sales on the Statement of Assets and Liabilities. Short sales expose the Portfolio to the risk that it will be required to cover its short position at a time when the security or other asset has appreciated in value, thus resulting in losses to the Portfolio. A short sale is "against the box" if the Portfolio holds in its portfolio or has the right to acquire the security sold short at no additional cost. The Portfolio will be subject to additional risks to the extent that it engages in short sales that are not "against the box." The Portfolio's loss on a short sale could theoretically be unlimited in cases where the Portfolio is unable, for whatever reason, to close out its short position.

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. A futures contract is an agreement to buy or sell a security or other asset for a set price on a future date. 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 specified amounts of currency at 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.

Options on Securities The Portfolio may write or purchase options on securities. An option uses a specified security as the underlying instrument for the option contract. The Portfolio may write or purchase options to enhance returns or to hedge an existing position or future investment.

(d) Swap Agreements The Portfolio may invest in swap agreements. Swap agreements are bilaterally negotiated agreements between the Portfolio and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. Swap agreements 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, 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 in general better reflects the Portfolio's actual economic exposure during the term of the credit default swap agreement. As a result, the Portfolio may, at times, have notional exposure to an asset class (before netting) that is greater or lesser than the stated limit or restriction noted in the Portfolio's prospectus. 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. To the extent the Portfolio has a policy to limit the net amount owed to or to be received from a single counterparty under existing swap agreements, such limitation only applies to counterparties to OTC swaps and does not apply to centrally cleared swaps where the counterparty is a central counterparty or derivatives clearing organization.

Credit Default Swap Agreements The 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 the Portfolio owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default. Credit default swap agreements 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. The value of the fixed rate bonds that the Portfolio holds 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 and equity risks.

Interest rate risk is the risk that fixed income securities and other instruments held by the Portfolio will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Portfolio is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. 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.). Under current economic conditions, interest rates are near historically low levels. Thus, the Portfolio currently faces a heightened level of interest rate risk, especially since the Federal Reserve Board has ended its quantitative easing program and has begun, and may continue, to raise interest rates. To the extent the Federal Reserve Board continues to raise interest rates, there is a risk that rates across the financial system may rise. 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. Also, the Portfolio may be adversely affected when a large shareholder purchases or redeems large amounts of shares, which can occur at any time and may impact the Portfolio in the same manner as a high volume of purchase or redemption requests. Large shareholder transactions may impact the Portfolio's liquidity and net asset value. Such transactions may also increase the Portfolio's transaction costs or otherwise cause the Portfolio to perform differently than intended. Moreover, the Portfolio is subject to the risk that other shareholders may make investment decisions based on the choices of a large shareholder.

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 derivatives traded on an exchange or through a central counterparty, credit risk resides with the Portfolio's clearing broker, or the clearinghouse itself, rather than with a counterparty in an OTC derivative transaction. 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, seeks to minimize 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 is required to 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.

8. MASTER 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 TBA 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 are disclosed in the Notes to Schedule of Investments.

Prime Broker Arrangements may be entered into to facilitate execution and/or clearing of listed equity option transactions or short sales of equity securities between the Portfolio and selected counterparties. The arrangements provide guidelines surrounding the rights, obligations, and other events, including, but not limited to, margin, execution, and settlement. These agreements maintain provisions for, among other things, payments, maintenance of collateral, events of default, and termination. Margin and other assets delivered as collateral are typically in the possession of the prime broker and would offset any obligations due to the prime broker. The market values of listed options and securities sold short and related collateral are 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.

9. 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 as noted in the table in note (b) below.

(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 Investment Advisory Fees and Supervisory and Administrative Fees for all classes, as applicable, are charged at the annual rate as noted in the following table (calculated as a percentage of the Portfolio's average daily net assets attributable to each class):

	Investment Advisory Fee	Supervisory and Administrative Fee		
Portfolio Name	**All Classes**	**Institutional Class**	**Administrative Class**	**Advisor Class**
PIMCO Low Duration Portfolio	0.25%	0.25%	0.25%	0.25%

(c) Distribution and Servicing Fees PIMCO Investments LLC, 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 Portfolio, 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 $36,850, plus $3,800 for each Board meeting attended in person, $775 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 $6,000, the valuation oversight committee lead receives an additional annual retainer of $4,250 (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 $2,125) and the governance committee chair receives an additional annual retainer of $2,750. 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. 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.

10. RELATED PARTY TRANSACTIONS

The Adviser, Administrator, and Distributor are related parties. Fees paid to these parties are disclosed in Note 9, 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 portfolio 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, 2017, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

Purchases	Sales
$ 2,308	$ 34,757

11. 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.

12. 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, 2017, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 4,235,476	$ 4,437,716	$ 329,194	$ 338,211

13. SHARES OF BENEFICIAL INTEREST

The Trust 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 06/30/2017		Year Ended 12/31/2016	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	897	$ 9,183	557	$ 5,723
Administrative Class	26,010	266,343	26,077	267,411
Advisor Class	8,408	86,075	20,114	206,250
Issued as reinvestment of distributions				
Institutional Class	8	79	13	137
Administrative Class	872	8,928	1,856	19,034
Advisor Class	492	5,041	943	9,668
Cost of shares redeemed				
Institutional Class	(265)	(2,708)	(529)	(5,435)
Administrative Class	(24,069)	(246,255)	(35,065)	(359,498)
Advisor Class	(5,445)	(55,748)	(17,083)	(174,933)
Net increase (decrease) resulting from Portfolio share transactions	6,908	$ 70,938	(3,117)	$ (31,643)

† A zero balance may reflect actual amounts rounding to less than one thousand.

As of June 30, 2017, two shareholders each owned 10% or more of the Portfolio's total outstanding shares comprising 42% of the Portfolio.

14. 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.

The foregoing speaks only as of the date of the preparation of this report.

15. 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, 2017, 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 2013-2016, 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, 2016, 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	$ —

† A zero balance may reflect actual amounts rounding to less than one thousand.

Under the Regulated Investment Company Modernization Act of 2010, a Portfolio 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 its last fiscal year ended December 31, 2016, the Portfolio had the following post-effective capital losses with no expiration (amounts in thousands):

Short-Term	Long-Term
$ 20,994	$ 15,398

As of June 30, 2017, 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)
$ 2,560,882	$ 32,795	$ (11,310)	$ 21,485

(1) Primary differences, if any, between book and tax net unrealized appreciation (depreciation) are attributable to wash sale loss deferrals for Federal income tax purposes.

Glossary: (abbreviations that may be used in the preceding statements)

Counterparty Abbreviations:

BOA	Bank of America N.A.	**GLM**	Goldman Sachs Bank USA	**MYC**	Morgan Stanley Capital Services, Inc.
BPS	BNP Paribas S.A.	**GST**	Goldman Sachs International	**NGF**	Nomura Global Financial Products, Inc.
BRC	Barclays Bank PLC	**HUS**	HSBC Bank USA N.A.	**SCX**	Standard Chartered Bank
CBK	Citibank N.A.	**IND**	Crédit Agricole Corporate and Investment Bank S.A.	**TOR**	Toronto Dominion Bank
DUB	Deutsche Bank AG	**JPM**	JPMorgan Chase Bank N.A.	**UAG**	UBS AG Stamford
FBF	Credit Suisse International	**MSB**	Morgan Stanley Bank, N.A		

Currency Abbreviations:

BRL	Brazilian Real	**INR**	Indian Rupee	**SEK**	Swedish Krona
CHF	Swiss Franc	**JPY**	Japanese Yen	**SGD**	Singapore Dollar
DKK	Danish Krone	**KRW**	South Korean Won	**THB**	Thai Baht
EUR	Euro	**MXN**	Mexican Peso	**TWD**	Taiwanese Dollar
GBP	British Pound	**MYR**	Malaysian Ringgit	**USD (or $)**	United States Dollar
ILS	Israeli Shekel				

Exchange Abbreviations:

CME	Chicago Mercantile Exchange	**OTC**	Over the Counter

Index/Spread Abbreviations:

CDX.IG	Credit Derivatives Index - Investment Grade	**CPURNSA**	Consumer Price All Urban Non-Seasonally Adjusted Index

Other Abbreviations:

ALT	Alternate Loan Trust	**FDIC**	Federal Deposit Insurance Corp.	**REMIC**	Real Estate Mortgage Investment Conduit
CDO	Collateralized Debt Obligation	**LIBOR**	London Interbank Offered Rate	**TBA**	To-Be-Announced
CLO	Collateralized Loan Obligation	**OAT**	Obligations Assimilables du Trésor		

General Information

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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, 2017

Franklin Templeton Variable Insurance Products Trust

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Franklin Templeton Variable Insurance Products Trust Semiannual Report

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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, 2017.

Class 2 Performance Summary as of June 30, 2017

The Fund's Class 2 Shares delivered a +21.19% total return* for the six-month period ended June 30, 2017.

*The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 4/30/18. Fund investment results reflect the fee waiver; without this waiver, 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.

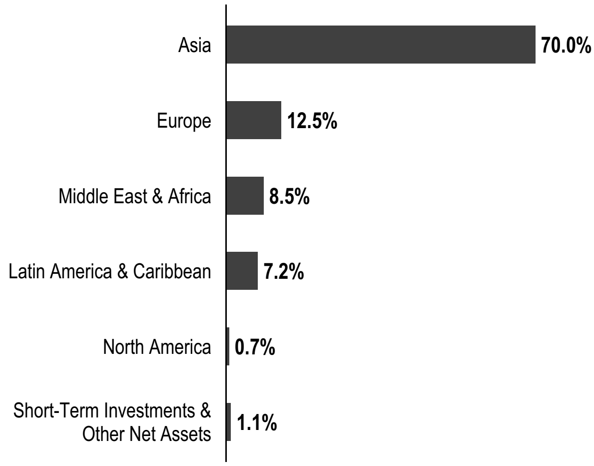
Performance Overview

You can find the Fund's six-month total return in the Performance Summary. In comparison, the MSCI Emerging Markets (EM) Index generated a +18.60% total return, and the Standard & Poor's®/International Finance Corporation Investable Composite Index produced a +18.74% total return for the same period.[1] Please note, index performance numbers are for reference and we do not attempt to track an index but rather undertake investments on the basis of fundamental research.

Economic and Market Overview

Emerging market economies in general continued to grow faster than developed market economies during the six months under review. China's economy grew faster in the first half of 2017 compared to the first half of 2016, driven by solid growth in industrial production, services, fixed-asset investment, retail sales, and imports and exports. India's economy grew at a slower pace in the March 2017 quarter compared to the prior-year period, as consumer spending growth slowed and investment declined following the government's demonetization program that recalled large-denominated currency notes from circulation. Russia's economy grew in the first quarter of 2017 compared to the prior-year period, driven by growth in mining, manufacturing, trade and transportation. Brazil's economy contracted at a slower rate in 2017's first quarter compared to the prior-year period, but it grew compared to the previous quarter, as export growth offset a small decline in consumer spending and contraction in investment and public spending. Following a quarterly decline in 2016's fourth quarter, South Africa's economy fell into recession in 2017's first quarter as gross domestic product contracted due largely to trade and manufacturing declines. Among other emerging markets, South Korea's, Taiwan's and Hungary's economies continued to grow.

Geographic Composition
Based on Total Net Assets as of 6/30/17



Several central banks, including those of Mexico and Turkey, raised their benchmark interest rates to control inflation and support their currencies, while some, including those of Chile, lowered their benchmark interest rates to promote economic growth. The Bank of Russia reduced its key interest rate several times, but noted at its June meeting that it would implement moderately tight monetary conditions to maintain inflation. Brazil's central bank cut its benchmark interest rate several times during the period to spur economic growth. China's,

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.

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).

India's and South Africa's central banks left their benchmark interest rates unchanged during the period.

Emerging market stocks rose significantly during the six months under review, as corporate earnings growth and encouraging economic data from China and other emerging market countries helped offset investor concerns about lower commodity prices and various geopolitical tensions. Further supporting stocks were emerging market currencies' overall strength against the U.S. dollar and subsiding concerns about the potential for a protectionist U.S. trade policy. In this environment, emerging market stocks, as measured by the MSCI EM Index, generated a +18.60% total return for the six months ended June 30, 2017.[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 investments in Samsung Electronics, Tencent Holdings and Brilliance China Automotive Holdings.

Samsung Electronics is a major South Korea-based manufacturer of consumer electronics. It is one of the world's largest manufacturers of mobile phones, smartphones, tablets and televisions. The company is also a leading supplier of memory chips for high-end phones and is a key provider of organic light-emitting diodes (OLED) displays. Key drivers of the stock price included strong first-quarter 2017 corporate results, robust second-quarter earnings guidance, proposed share buybacks and announcement of a cancelation of all existing Treasury shares. Strong demand for Samsung's new high-end smartphone, the Galaxy S8, which was released in March 2017, also supported sentiment.

Tencent is one of the world's largest and most widely used Internet service portals. The company provides value-added Internet, mobile and telecommunication services and online advertising under the strategic goal of providing users with "one-stop online lifestyle services." Over the last decade, Tencent has maintained steady growth under its user-oriented operating strategies. Internet stocks in China rebounded in the first half of 2017 following pressure in the fourth quarter of 2016. Tencent's shares further benefited from a better-than-expected double-digit increase in first-quarter revenues, driven by the online gaming, online advertising and social networking segments.

Top 10 Countries
6/30/2017

	% of Total Net Assets
China	21.3%
South Korea	16.7%
Taiwan	12.0%
India	7.9%
South Africa	6.9%
Russia	6.4%
Brazil	4.5%
Thailand	3.9%
Indonesia	3.5%
U.K.	3.3%

Brilliance China Automotive manufactures and sells automobiles to the Chinese domestic market, predominantly through its joint venture with German luxury car manufacturer BMW. The company announced an in-line set of figures for 2016, and better-than-expected first-quarter 2017 earnings growth driven by strong sales growth. Expectations for a continuation of strong sales momentum in the second half of 2017, supported by resilient luxury car demand and the continued rise of China's upper middle class also drove share price performance over the period. An encouraging outlook based upon new vehicle launches, increased financing revenues, a supportive macroeconomic environment and attractive valuations further supported investor sentiment in the stock.

In contrast, key detractors included positions in IMAX, LUKOIL and Glenmark Pharmaceuticals.

IMAX is one of the world's leading entertainment technology companies, specializing in immersive motion picture technologies. The company combines proprietary software, theater architecture and equipment to create high-quality motion picture experiences. Its systems are used globally, including a notable market position in China. Gross profit margin for first-quarter 2017 was down from first-quarter 2016, when box-office figures were helped by a stronger movie slate.

In June, the company announced a cost-cutting program and proposed further share buybacks.

LUKOIL is a Russia-based energy company primarily involved in the exploration, production, marketing and refining of oil and oil-related products. The company is one of the world's largest oil companies in terms of reserves. Although the company delivered first-quarter 2017 results that beat expectations, its shares underperformed due to weak investor sentiment in the Russian market in general and a decline in crude oil prices. After surging 55.93% in U.S. dollar terms in 2016, the Russian market gave back some of those gains in the first half of 2017, with the MSCI Russia Index declining 13.96%. Key reasons for the correction were a decline in oil prices and geopolitical worries, including additional U.S. sanctions.

Glenmark Pharmaceuticals is an Indian manufacturer of generic drugs and pharmaceutical ingredients. Glenmark produces formulation products in areas such as oncology, respiratory and cardiac. It also researches and develops its own chemical and biological entities. In addition to India, the U.S. is its main market. Its share price declined significantly in May as the company announced weaker-than-expected first-quarter 2017 operating performance with disappointing revenue growth. Sales in India were impacted by the government's demonetization program to recall large-denominated currency notes, while price declines and lower sales for a cholesterol-lowering drug pressured sales in the U.S.

It is important to recognize the effect of currency movements on the Fund's performance. In general, if the value of the U.S. dollar goes up compared with a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. This can have a negative effect on Fund performance. Conversely, when the U.S. dollar weakens in relation to a foreign currency, an investment traded in that foreign currency will increase in value, which can contribute to Fund performance. For the six months ended June 30, 2017, the U.S. dollar declined in value relative to most currencies. As a result, the Fund's performance was positively affected by the portfolio's investment predominantly in securities with non-U.S. currency exposure. However, one cannot expect the same result in future periods.

Top 10 Holdings

6/30/17

Company ***Sector/Industry, Country***	**% of Total Net Assets**
Samsung Electronics Co. Ltd. *Technology Hardware, Storage & Peripherals, South Korea*	7.4%
Taiwan Semiconductor Manufacturing Co. Ltd. *Semiconductors & Semiconductor Equipment, Taiwan*	6.2%
Naspers Ltd. *Media, South Africa*	5.5%
Brilliance China Automotive Holdings Ltd. *Automobiles, China*	4.7%
Alibaba Group Holding Ltd. *Internet Software & Services, China*	3.4%
Unilever PLC *Personal Products, U.K.*	3.2%
Tencent Holdings Ltd. *Internet Software & Services, China*	3.1%
Hon Hai Precision Industry Co. Ltd. *Electronic Equipment, Instruments & Components, Taiwan*	3.0%
ICICI Bank Ltd. *Banks, India*	2.4%
Astra International Tbk PT *Automobiles, Indonesia*	2.0%

During the past six months, we increased the Fund's holdings in Russia, South Korea, Mexico and the Czech Republic as we continued to invest in opportunities we considered to be attractive. In sector terms, we added to the Fund's holdings in financials, health care and materials.[2] Key purchases included a new position in Sberbank of Russia, the country's leading bank. We also increased investments in South Korea-listed POSCO, one of the world's largest steel producers, and Alibaba Group Holding, China's largest e-commerce company.

Conversely, we conducted some sales to focus on stocks we considered to be more attractively valued within our investment universe. We reduced the Fund's investments in Brazil, South Africa and the U.K. and made some sales in China. In sector terms, we reduced holdings in industrials and consumer staples and conducted some sales in information technology (IT).[3] Key sales included reducing holdings in the aforementioned Tencent and in Brazilian financial conglomerate Itau Unibanco Holding.

2. The financials sector comprises banks, diversified financial services and insurance in the SOI. The health care sector comprises biotechnology and pharmaceuticals in the SOI. The materials sector comprises chemicals, construction materials, and metals and mining in the SOI.

3. The industrials sector comprises construction and engineering, distributors, trading companies and distributors, and transportation infrastructure in the SOI. The consumer staples sector comprises beverages, food and staples retailing, food products and personal products in the SOI. The IT sector comprises electronic equipment, instruments and components; Internet software and services; IT services; semiconductors and semiconductor equipment; and technology hardware, storage and peripherals in the SOI.

We also closed the Fund's position in Remgro, a South African holding company with interests in food, finance and health care.

Thank you for your participation in Templeton Developing Markets VIP Fund. We look forward to serving your future investment needs.

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2017, 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: (1) transaction expenses can include sales charges (loads) on purchases, surrender fees, transfer fees and premium taxes; and (2) 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 table below shows Fund-level ongoing expenses and can help you understand these costs 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 table below provides information about the actual account values and actual expenses in the columns under the heading "Actual." In these columns the Fund's actual return, which includes the effect of ongoing Fund expenses but does not include the effect of ongoing Contract expenses, is used to calculate the "Ending Account Value." You can estimate the Fund-level expenses you paid during the period by following these steps (o*f course, your account value and expenses will differ from those in this illustration*): Divide your account value by $1,000 (*if your account had an $8,600 value, then $8,600 ÷ $1,000 = 8.6*). Then multiply the result by the number under the headings "Actual" and "Fund-Level Expenses Paid During Period" (*if Fund-Level Expenses Paid During Period were $ 7.50, then 8.6 x $ 7.50 = $64.50*). In this illustration, the estimated expenses paid this period at the Fund level are $64.50.

Hypothetical Example for Comparison with Other Mutual Funds

Under the heading "Hypothetical" in the table, information is provided 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. This information may not be used to estimate the actual ending account balance or expenses you paid for the period, but it can help you compare ongoing costs of investing in the Fund with those of other mutual funds offered through the Contract. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds offered through the Contract.

Please note that expenses shown in the table are meant to highlight ongoing costs at the Fund level only and do not reflect any ongoing expenses at the Contract level, or transaction expenses at either the Fund or Contract levels. In addition, 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.

		Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		
Share Class	Beginning Account Value 1/1/17	Ending Account Value 6/30/17	Fund-Level Expenses Paid During Period 1/1/17–6/30/17[1,2]	Ending Account Value 6/30/17	Fund-Level Expenses Paid During Period 1/1/17–6/30/17[1,2]	Net Annualized Expense Ratio[2]
Class 2	$1,000	$1,211.90	$8.77	$1,016.86	$8.00	1.60%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 181/365 to reflect the one-half year period.
2. Reflects expenses after fee waivers and expense reimbursements. Does not include any ongoing expenses of the Contract for which the Fund is an investment option or acquired fund fees and expenses.

Financial Highlights

Templeton Developing Markets VIP Fund

	Six Months Ended June 30, 2017 (unaudited)	Year Ended December 31, 2016	2015	2014	2013	2012
Class 1						
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$ 7.42	$ 6.37	$ 9.27	$10.26	$10.58	$ 9.50
Income from investment operations[a]:						
Net investment income[b]	0.04	0.05	0.06	0.15[c]	0.13	0.19
Net realized and unrealized gains (losses)	1.54	1.08	(1.63)	(0.97)	(0.22)	1.06
Total from investment operations	1.58	1.13	(1.57)	(0.82)	(0.09)	1.25
Less distributions from:						
Net investment income	(0.11)	(0.08)	(0.20)	(0.17)	(0.23)	(0.17)
Net realized gains	—	—	(1.13)	—	—	—
Total distributions	(0.11)	(0.08)	(1.33)	(0.17)	(0.23)	(0.17)
Redemption fees	—	—	—	—[d]	—[d]	—[d]
Net asset value, end of period	$ 8.89	$ 7.42	$ 6.37	$ 9.27	$10.26	$10.58
Total return[e]	21.28%	17.79%	(19.42)%	(8.09)%	(0.73)%	13.40%
Ratios to average net assets[f]						
Expenses before waiver and payments by affiliates	1.36%	1.38%	1.33%	1.36%	1.35%	1.35%
Expenses net of waiver and payments by affiliates	1.35%[g]	1.36%	1.32%	1.36%[h]	1.35%	1.35%
Net investment income	1.03%	0.79%	0.74%	1.51%[c]	1.25%	1.93%
Supplemental data						
Net assets, end of period (000's)	$96,653	$82,596	$77,000	$114,487	$145,707	$203,568
Portfolio turnover rate	8.54%	26.78%	71.69%	82.87%	44.59%	24.45%

[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 expense reduction rounds to less than 0.01%.

[h]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

Templeton Developing Markets VIP Fund (continued)

	Six Months Ended June 30, 2017 (unaudited)	Year Ended December 31, 2016	2015	2014	2013	2012
Class 2						
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$ 7.36	$ 6.32	$ 9.20	$10.19	$10.50	$ 9.42
Income from investment operations[a]:						
Net investment income[b]	0.03	0.04	0.04	0.12[c]	0.10	0.17
Net realized and unrealized gains (losses)	1.53	1.06	(1.61)	(0.96)	(0.21)	1.05
Total from investment operations	1.56	1.10	(1.57)	(0.84)	(0.11)	1.22
Less distributions from:						
Net investment income	(0.09)	(0.06)	(0.18)	(0.15)	(0.20)	(0.14)
Net realized gains	—	—	(1.13)	—	—	—
Total distributions	(0.09)	(0.06)	(1.31)	(0.15)	(0.20)	(0.14)
Redemption fees	—	—	—	—[d]	—[d]	—[d]
Net asset value, end of period	$ 8.83	$ 7.36	$ 6.32	$ 9.20	$10.19	$10.50
Total return[e]	21.19%	17.44%	(19.60)%	(8.39)%	(0.92)%	13.16%
Ratios to average net assets[f]						
Expenses before waiver and payments by affiliates	1.61%	1.63%	1.58%	1.61%	1.60%	1.60%
Expenses net of waiver and payments by affiliates	1.60%[g]	1.61%	1.57%	1.61%[h]	1.60%	1.60%
Net investment income	0.78%	0.54%	0.49%	1.26%[c]	1.00%	1.68%
Supplemental data						
Net assets, end of period (000's)	$241,493	$205,151	$192,120	$250,813	$274,683	$291,638
Portfolio turnover rate	8.54%	26.78%	71.69%	82.87%	44.59%	24.45%

[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 expense reduction rounds to less than 0.01%.

[h]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

Templeton Developing Markets VIP Fund (continued)

	Six Months Ended June 30, 2017 (unaudited)	Year Ended December 31, 2016	2015	2014	2013	2012
Class 4						
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$ 7.39	$ 6.34	$ 9.22	$10.20	$10.50	$ 9.42
Income from investment operations[a]:						
Net investment income[b]	0.03	0.03	0.03	0.12[c]	0.10	0.16
Net realized and unrealized gains (losses)	1.54	1.06	(1.62)	(0.97)	(0.21)	1.04
Total from investment operations	1.57	1.09	(1.59)	(0.85)	(0.11)	1.20
Less distributions from:						
Net investment income	(0.08)	(0.04)	(0.16)	(0.13)	(0.19)	(0.12)
Net realized gains	—	—	(1.13)	—	—	—
Total distributions	(0.08)	(0.04)	(1.29)	(0.13)	(0.19)	(0.12)
Redemption fees	—	—	—	—[d]	—[d]	—[d]
Net asset value, end of period	$ 8.88	$ 7.39	$ 6.34	$ 9.22	$10.20	$10.50
Total return[e]	21.20%	17.32%	(19.70)%	(8.48)%	(1.07)%	13.06%
Ratios to average net assets[f]						
Expenses before waiver and payments by affiliates	1.71%	1.73%	1.68%	1.71%	1.70%	1.70%
Expenses net of waiver and payments by affiliates	1.70%[g]	1.71%	1.67%	1.71%[h]	1.70%	1.70%
Net investment income	0.68%	0.44%	0.39%	1.16%[c]	0.90%	1.58%
Supplemental data						
Net assets, end of period (000's)	$6,602	$6,377	$7,109	$11,106	$15,225	$23,341
Portfolio turnover rate	8.54%	26.78%	71.69%	82.87%	44.59%	24.45%

[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 expense reduction rounds to less than 0.01%.

[h]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

Statement of Investments, June 30, 2017 (unaudited)
Templeton Developing Markets VIP Fund

	Industry	Shares	Value
Common Stocks 94.3%			
Belgium 1.0%			
Anheuser-Busch InBev SA/NV	Beverages	31,970	$ 3,531,630
Brazil 1.1%			
[a] B2W Cia Digital	Internet & Direct Marketing Retail	183,800	648,853
B3 SA - Brasil Bolsa Balcao	Capital Markets	55,400	330,135
M Dias Branco SA	Food Products	136,200	2,025,997
Mahle-Metal Leve SA	Auto Components	136,600	801,650
			3,806,635
Cambodia 0.7%			
NagaCorp Ltd.	Hotels, Restaurants & Leisure	4,824,000	2,533,176
China 21.3%			
[a] Alibaba Group Holding Ltd., ADR	Internet Software & Services	82,310	11,597,479
BAIC Motor Corp. Ltd., H	Automobiles	1,686,100	1,634,757
[a] Baidu Inc., ADR	Internet Software & Services	19,190	3,432,323
Bloomage Biotechnology Corp. Ltd.	Chemicals	772,000	1,483,142
Brilliance China Automotive Holdings Ltd.	Automobiles	8,909,300	16,226,217
China Life Insurance Co. Ltd., H	Insurance	539,000	1,646,460
China Mobile Ltd.	Wireless Telecommunication Services	490,500	5,204,819
China Petroleum & Chemical Corp., H	Oil, Gas & Consumable Fuels	5,918,000	4,616,006
CNOOC Ltd.	Oil, Gas & Consumable Fuels	1,465,500	1,604,819
COSCO Shipping Ports Ltd.	Transportation Infrastructure	1,069,334	1,254,535
Dah Chong Hong Holdings Ltd.	Distributors	1,746,100	800,620
Inner Mongolia Yitai Coal Co. Ltd., B	Oil, Gas & Consumable Fuels	556,500	573,195
NetEase Inc., ADR	Internet Software & Services	13,224	3,975,531
Ping An Insurance Group Co. of China Ltd., A	Insurance	611,929	4,476,055
Poly Culture Group Corp. Ltd., H	Media	229,200	542,489
Tencent Holdings Ltd.	Internet Software & Services	299,900	10,724,227
Uni-President China Holdings Ltd.	Food Products	3,563,300	2,879,757
Weifu High-Technology Co. Ltd., B	Auto Components	334,339	790,483
			73,462,914
Czech Republic 0.4%			
Moneta Money Bank AS	Banks	390,403	1,308,060
Hong Kong 2.5%			
Dairy Farm International Holdings Ltd.	Food & Staples Retailing	149,333	1,176,744
MGM China Holdings Ltd.	Hotels, Restaurants & Leisure	1,731,200	3,849,205
Sands China Ltd.	Hotels, Restaurants & Leisure	807,600	3,697,826
			8,723,775
Hungary 1.4%			
Richter Gedeon Nyrt	Pharmaceuticals	177,170	4,631,514
India 7.9%			
Bajaj Holdings & Investment Ltd.	Diversified Financial Services	35,390	1,157,130
Biocon Ltd.	Biotechnology	889,725	4,558,085
Coal India Ltd.	Oil, Gas & Consumable Fuels	338,475	1,279,364
Glenmark Pharmaceuticals Ltd.	Pharmaceuticals	292,323	2,862,612
ICICI Bank Ltd.	Banks	1,806,409	8,110,950
Infosys Ltd.	IT Services	183,099	2,650,855
Reliance Industries Ltd.	Oil, Gas & Consumable Fuels	118,700	2,534,912
Tata Chemicals Ltd.	Chemicals	238,500	2,240,136
Tata Motors Ltd., A	Automobiles	401,271	1,635,015
			27,029,059

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Indonesia 3.5%			
Astra International Tbk PT	Automobiles	10,115,100	$ 6,773,759
Bank Danamon Indonesia Tbk PT	Banks	5,707,000	2,194,588
Perusahaan Gas Negara (Persero) Tbk PT	Gas Utilities	6,697,400	1,130,681
Semen Indonesia (Persero) Tbk PT	Construction Materials	2,764,700	2,074,432
			12,173,460
Kenya 0.4%			
Equity Group Holdings Ltd.	Banks	3,712,900	1,351,610
Mexico 1.9%			
Grupo Financiero Santander Mexico SAB de CV, B, ADR	Banks	545,057	5,254,349
Nemak SAB de CV	Auto Components	1,426,300	1,368,299
			6,622,648
Nigeria 0.0%[†]			
Nigerian Breweries PLC	Beverages	170,327	73,447
Pakistan 1.2%			
Habib Bank Ltd.	Banks	1,550,000	3,988,966
Peru 0.8%			
Compania de Minas Buenaventura SA, ADR	Metals & Mining	243,390	2,798,985
Philippines 0.2%			
BDO Unibank Inc.	Banks	327,469	805,350
Russia 6.4%			
Gazprom PAO, ADR	Oil, Gas & Consumable Fuels	666,900	2,639,590
LUKOIL PJSC, ADR	Oil, Gas & Consumable Fuels	56,700	2,761,290
LUKOIL PJSC, ADR (London Stock Exchange)	Oil, Gas & Consumable Fuels	38,600	1,879,820
[a,b] Mail.Ru Group Ltd., GDR, Reg S	Internet Software & Services	179,485	4,729,430
MMC Norilsk Nickel PJSC, ADR	Metals & Mining	137,400	1,896,120
Sberbank of Russia PJSC, ADR	Banks	402,166	4,162,418
[a] Yandex NV, A	Internet Software & Services	150,078	3,938,047
			22,006,715
Singapore 0.1%			
DBS Group Holdings Ltd.	Banks	25,706	387,233
South Africa 6.9%			
Massmart Holdings Ltd.	Food & Staples Retailing	293,714	2,366,220
MTN Group Ltd.	Wireless Telecommunication Services	276,096	2,405,601
Naspers Ltd., N	Media	97,448	18,938,197
			23,710,018
South Korea 16.7%			
Daelim Industrial Co. Ltd.	Construction & Engineering	53,442	4,154,261
Fila Korea Ltd.	Textiles, Apparel & Luxury Goods	33,470	2,499,441
Hankook Tire Co. Ltd.	Auto Components	21,600	1,199,864
Hanon Systems	Auto Components	292,362	2,630,142
Hite Jinro Co. Ltd.	Beverages	64,320	1,308,950
Hyundai Development Co-Engineering & Construction	Construction & Engineering	126,830	5,200,902
iMarketkorea Inc.	Trading Companies & Distributors	70,490	837,312
Interpark Holdings Corp.	Internet & Direct Marketing Retail	142,053	750,632
KT Skylife Co. Ltd.	Media	176,060	2,514,198
POSCO	Metals & Mining	13,592	3,407,111
Samsung Electronics Co. Ltd.	Technology Hardware, Storage & Peripherals	12,367	25,675,246
SK Hynix Inc.	Semiconductors & Semiconductor Equipment	113,860	6,702,737

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
South Korea (continued)			
Youngone Corp.	Textiles, Apparel & Luxury Goods	22,200	$ 661,193
			57,541,989
Taiwan 12.0%			
Catcher Technology Co. Ltd.	Technology Hardware, Storage & Peripherals	357,000	4,269,576
Hon Hai Precision Industry Co. Ltd.	Electronic Equipment, Instruments & Components	2,700,500	10,395,423
Largan Precision Co. Ltd.	Electronic Equipment, Instruments & Components	14,000	2,233,994
Pegatron Corp.	Technology Hardware, Storage & Peripherals	973,800	3,053,338
Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductors & Semiconductor Equipment	3,100,000	21,265,710
			41,218,041
Thailand 3.9%			
Kasikornbank PCL, fgn.	Banks	619,500	3,643,581
Kiatnakin Bank PCL, fgn.	Banks	1,009,800	2,128,558
Land and Houses PCL, fgn.	Real Estate Management & Development	4,853,900	1,459,604
PTT Exploration and Production PCL, fgn.	Oil, Gas & Consumable Fuels	584,500	1,486,236
Siam Commercial Bank PCL, fgn.	Banks	306,400	1,404,635
Thai Beverage PCL, fgn.	Beverages	5,290,600	3,458,411
			13,581,025
United Kingdom 3.3%			
Unilever PLC	Personal Products	206,804	11,192,430
United States 0.7%			
[a] IMAX Corp.	Media	114,064	2,509,408
Total Common Stocks (Cost $249,026,842)			324,988,088
[c] **Participatory Notes 1.2%**			
Saudi Arabia 1.2%			
Deutsche Bank AG/London, Samba Financial Group, 8/03/20	Banks	143,055	989,901
HSBC Bank PLC, Saudi Basic Industries Corp., 1/22/18	Chemicals	118,213	3,215,265
Total Participatory Notes (Cost $3,355,684)			4,205,166
Preferred Stocks 3.4%			
Brazil 3.4%			
[d] Banco Bradesco SA, 4.12%, ADR, pfd.	Banks	627,815	5,336,428
[d] Itau Unibanco Holding SA, 5.137%, ADR, pfd.	Banks	589,962	6,519,080
Total Preferred Stocks (Cost $6,333,400)			11,855,508
Total Investments before Short Term Investments (Cost $258,715,926)			341,048,762

Templeton Developing Markets VIP Fund (continued)

	Shares	Value
Short Term Investments (Cost $3,394,033) 1.0%		
Money Market Funds 1.0%		
United States 1.0%		
[e,f] Institutional Fiduciary Trust Money Market Portfolio, 0.58% . .	3,394,033	$ 3,394,033
Total Investments (Cost $262,109,959) 99.9%.		344,442,795
Other Assets, less Liabilities 0.1%.		304,507
Net Assets 100.0%		$344,747,302

See Abbreviations on page TD-23.

[†] Rounds to less than 0.1% of net assets.

[a] Non-income producing.

[b] Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2017, the value of this security was $4,729,430, representing 1.4% of net assets.

[c] See Note 1(c) regarding Participatory Notes.

[d] Variable rate security. The rate shown represents the yield at period end.

[e] See Note 3(e) regarding investments in affiliated management investment companies.

[f] The rate shown is the annualized seven-day yield at period end.

Financial Statements

Statement of Assets and Liabilities

June 30, 2017 (unaudited)

	Templeton Developing Markets VIP Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$258,715,926
Cost - Non-controlled affiliates (Note 3e)	3,394,033
Total cost of investments	$262,109,959
Value - Unaffiliated issuers	$341,048,762
Value - Non-controlled affiliates (Note 3e)	3,394,033
Total value of investments	344,442,795
Receivables:	
Investment securities sold	117,889
Capital shares sold	231,148
Dividends	1,267,290
Foreign tax	23,735
Other assets	202
Total assets	346,083,059
Liabilities:	
Payables:	
Investment securities purchased	83,938
Capital shares redeemed	416,379
Management fees	352,000
Distribution fees	105,050
Reports to shareholders	73,589
Deferred tax	236,544
Accrued expenses and other liabilities	68,257
Total liabilities	1,335,757
Net assets, at value	$344,747,302
Net assets consist of:	
Paid-in capital	$294,801,597
Distributions in excess of net investment income	(3,913,862)
Net unrealized appreciation (depreciation)	82,066,897
Accumulated net realized gain (loss)	(28,207,330)
Net assets, at value	$344,747,302
Class 1:	
Net assets, at value	$ 96,653,027
Shares outstanding	10,866,797
Net asset value and maximum offering price per share	$8.89
Class 2:	
Net assets, at value	$241,492,621
Shares outstanding	27,348,017
Net asset value and maximum offering price per share	$8.83
Class 4:	
Net assets, at value	$ 6,601,654
Shares outstanding	743,522
Net asset value and maximum offering price per share	$8.88

Statement of Operations

for the six months ended June 30, 2017 (unaudited)

	Templeton Developing Markets VIP Fund
Investment income:	
Dividends: (net of foreign taxes of $671,504)	
Unaffiliated issuers	$ 3,883,788
Non-controlled affiliates (Note 3e)	7,086
Total investment income	3,890,874
Expenses:	
Management fees (Note 3a)	2,033,073
Distribution fees: (Note 3c)	
Class 2	286,240
Class 4	11,451
Custodian fees (Note 4)	52,054
Reports to shareholders	84,976
Registration and filing fees	1,189
Professional fees	33,436
Trustees' fees and expenses	662
Other	12,256
Total expenses	2,515,337
Expense reductions (Note 4)	(92)
Expenses waived/paid by affiliates (Note 3e)	(8,295)
Net expenses	2,506,950
Net investment income	1,383,924
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	11,089,640
Foreign currency transactions	104,255
Net realized gain (loss)	11,193,895
Net change in unrealized appreciation (depreciation) on:	
Investments	49,611,553
Translation of other assets and liabilities denominated in foreign currencies	4,184
Change in deferred taxes on unrealized appreciation	32,849
Net change in unrealized appreciation (depreciation)	49,648,586
Net realized and unrealized gain (loss)	60,842,481
Net increase (decrease) in net assets resulting from operations	$62,226,405

Statements of Changes in Net Assets

	Templeton Developing Markets VIP Fund	
	Six Months Ended June 30, 2017 (unaudited)	Year Ended December 31, 2016
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 1,383,924	$ 1,776,761
Net realized gain (loss)	11,193,895	10,092,119
Net change in unrealized appreciation (depreciation)	49,648,586	34,428,227
Net increase (decrease) in net assets resulting from operations	62,226,405	46,297,107
Distributions to shareholders from:		
Net investment income:		
Class 1	(1,158,124)	(875,959)
Class 2	(2,409,152)	(1,674,699)
Class 4	(56,318)	(44,436)
Total distributions to shareholders	(3,623,594)	(2,595,094)
Capital share transactions: (Note 2)		
Class 1	(2,213,100)	(6,421,627)
Class 2	(4,783,739)	(17,591,736)
Class 4	(982,491)	(1,794,556)
Total capital share transactions	(7,979,330)	(25,807,919)
Net increase (decrease) in net assets	50,623,481	17,894,094
Net assets:		
Beginning of period	294,123,821	276,229,727
End of period	$344,747,302	$294,123,821
Distributions in excess of net investment income included in net assets:		
End of period	$ (3,913,862)	$ (1,674,192)

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 eighteen 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. 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 may differ 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. 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 Fund's business day. Occasionally, events occur between the time at which trading in a foreign security is completed and 4 p.m. Eastern time 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 4 p.m. Eastern time. 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). These price movements are measured against

Templeton Developing Markets VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation *(continued)*

established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the Fund's NAV is not calculated, 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. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and if applicable, excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

The Fund 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, 2017, 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.

Templeton Developing Markets VIP Fund (continued)

e. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Estimated expenses are accrued daily. Dividend income is recorded on the ex-dividend date except for certain dividends from 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. Distributable earnings are determined according to income tax regulations (tax basis) and 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.

f. 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.

g. Guarantees and Indemnifications

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

2. Shares of Beneficial Interest

At June 30, 2017, 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, 2017		Year Ended December 31, 2016	
	Shares	**Amount**	**Shares**	**Amount**
Class 1 Shares:				
Shares sold	689,630	$ 5,752,411	1,670,412	$ 11,807,302
Shares issued in reinvestment of distributions	132,055	1,158,124	130,351	875,960
Shares redeemed	(1,090,182)	(9,123,635)	(2,747,707)	(19,104,889)
Net increase (decrease)	(268,497)	$ (2,213,100)	(946,944)	$ (6,421,627)
Class 2 Shares:				
Shares sold	3,923,463	$ 32,364,912	6,851,485	$ 48,325,937
Shares issued in reinvestment of distributions	276,596	2,409,152	251,080	1,674,699
Shares redeemed	(4,732,334)	(39,557,803)	(9,617,120)	(67,592,372)
Net increase (decrease)	(532,275)	$ (4,783,739)	(2,514,555)	$(17,591,736)

Templeton Developing Markets VIP Fund (continued)

2. Shares of Beneficial Interest (continued)

	Six Months Ended June 30, 2017		Year Ended December 31, 2016	
	Shares	Amount	Shares	Amount
Class 4 Shares:				
Shares sold	24,562	$ 206,936	84,033	$ 595,503
Shares issued in reinvestment of distributions	6,436	56,318	6,622	44,436
Shares redeemed	(150,274)	(1,245,745)	(348,788)	(2,434,495)
Net increase (decrease)	(119,276)	$ (982,491)	(258,133)	$ (1,794,556)

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

For the period ended June 30, 2017, the annualized effective investment management fee rate was 1.243% 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 the Fund's average daily net assets, and is not an additional expense of the Fund.

Templeton Developing Markets VIP Fund (continued)

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. During the period ended June 30, 2017, the Fund held investments in affiliated management investment companies as follows:

	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, 0.58%	4,395,622	33,884,277	(34,885,866)	3,394,033	$3,394,033	$7,086	$-	0.0%[a]

[a]Rounds to less than 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, 2017, the custodian fees were reduced as noted in the Statement of Operations.

5. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains, if any. At December 31, 2016, the capital loss carryforwards were as follows:

Capital loss carryforwards not subject to expiration:	
Short term	$19,728,638
Long term	13,677,912
Total capital loss carryforwards	$33,406,550

Templeton Developing Markets VIP Fund (continued)

5. Income Taxes (continued)

At June 30, 2017, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$272,491,891
Unrealized appreciation	$ 94,555,997
Unrealized depreciation	(22,605,093)
Net unrealized appreciation (depreciation)	$ 71,950,904

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, 2017, aggregated $27,509,930 and $36,956,196, 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.

The United States and other nations have imposed and could impose additional sanctions on certain issuers in Russia due to regional conflicts. These sanctions could result in the devaluation of Russia's currency, a downgrade in Russian issuers' credit ratings, or a decline in the value and liquidity of Russian stocks or other securities. Such sanctions could also adversely affect Russia's economy, possibly forcing the economy into a recession. The Fund may be prohibited from investing in securities issued by companies subject to such sanctions. In addition, if the Fund holds the securities of an issuer that is subject to such sanctions, an immediate freeze of that issuer's securities could result, impairing the ability of the Fund to buy, sell, receive or deliver those securities. There is also the risk that countermeasures could be taken by Russia's government, which could involve the seizure of the Fund's assets. These risks could affect the value of the Fund's portfolio. While the Fund holds securities of certain companies impacted by the sanctions, the restrictions do not impact the existing investments in those issuers. At June 30, 2017, the Fund had 6.4% of its net assets invested in Russia.

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 9, 2018. 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 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the period ended June 30, 2017, the Fund did not use the Global Credit Facility.

Templeton Developing Markets VIP Fund (continued)

9. Fair Value Measurements

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

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

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

A summary of inputs used as of June 30, 2017, 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,b]	$ 336,843,596	$ —	$ —	$ 336,843,596
Participatory Notes	—	4,205,166	—	4,205,166
Short Term Investments	3,394,033	—	—	3,394,033
Total Investments in Securities	$ 340,237,629	$ 4,205,166	$ —	$ 344,442,795

[a]Includes common and preferred stocks.
[b]For detailed categories, see the accompanying Statement of Investments.

10. Investment Company Reporting Modernization

In October 2016, the U.S. Securities and Exchange Commission adopted new rules and amended existing rules (together, final rules) intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosures about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X is August 1, 2017. Management has reviewed the requirements and believes the adoption of the amendments to Regulation S-X will not have a material impact on the Fund's financial statements and related disclosures.

11. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

Abbreviations

Selected Portfolio

ADR American Depositary Receipt
GDR Global Depositary Receipt

Tax Information (unaudited)

Templeton Developing Markets VIP Fund

At December 31, 2016, 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, 2017, 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, Class2, and Class 4 shareholders of record.

Class	Foreign Tax Paid Per Share	Foreign Source Income Per Share
Class 1	$0.0202	$0.1271
Class 2	$0.0202	$0.1083
Class 4	$0.0202	$0.0952

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.

Index Descriptions

The indexes are unmanaged and include reinvestment of any income or distributions. They do not reflect any fees, expenses or sales charges.

For Russell Indexes: Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

See www.franklintempletondatasources.com for additional data provider information.

Bloomberg 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.

Bloomberg Barclays U.S. Government Index: Intermediate Component is the intermediate component of the Barclays U.S. Government Index, which includes public obligations of the U.S. Treasury with at least one year to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government.

Citigroup World Government Bond Index is a market capitalization-weighted index consisting of investment-grade world government bond markets.

Consumer Price Index (CPI) is a commonly used measure of the inflation rate.

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 allocation 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 6/30/17, there were 344 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 6/30/17, there were 75 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 6/30/17, 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.

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 World Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets.

Russell 1000® Growth Index is market capitalization weighted and measures performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Index is market capitalization weighted and measures performance of the largest companies in the Russell 3000® Index, which represents the majority of the U.S. market's total capitalization.

Russell 1000™ Value Index is market capitalization weighted and measures performance of those Russell 1000™ Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2000® Index is market capitalization weighted and measures performance of the 2,000 smallest companies in the Russell 3000® Index, which represent a small amount of the total market capitalization of the Russell 3000® Index.

Russell 2000™ Value Index is market capitalization weighted and measures performance of those Russell 2000™ Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2500® Index is market capitalization weighted and measures performance of the smallest companies in the Russell 3000® Index, which represent a modest amount of the Russell 3000® Index's total market capitalization.

Russell 2500™ Value Index is market capitalization weighted and measures performance of those Russell 2500™ Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 3000® Growth Index is market capitalization weighted and measures performance of those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 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 represents 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 Approval of Investment Management Agreements

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

Franklin Flex Cap Growth VIP Fund
Franklin Global Real Estate VIP Fund
Franklin Growth and Income VIP Fund
Franklin Income VIP Fund
Franklin Large Cap Growth VIP Fund
Franklin Mutual Global Discovery VIP Fund
Franklin Mutual Shares VIP Fund
Franklin Rising Dividends VIP Fund
Franklin Small Cap Value VIP Fund
Franklin Small-Mid Cap Growth VIP Fund
Franklin Strategic Income VIP Fund
Franklin U.S. Government Securities VIP Fund
Franklin VolSmart Allocation VIP Fund
Templeton Developing Markets VIP Fund
Templeton Foreign VIP Fund
Templeton Global Bond VIP Fund
Templeton Growth VIP Fund
(each a Fund)

At an in-person meeting held on April 18, 2017 (Meeting), the Board of Trustees (Board) of Franklin Templeton Variable Insurance Products Trust (Trust), including a majority of the trustees who are not “interested persons” as defined in the Investment Company Act of 1940 (Independent Trustees), reviewed and approved the continuance of the (i) investment management agreement between Franklin Advisers, Inc. (FAI) and each of Franklin Flex Cap Growth VIP Fund, Franklin Growth and Income VIP Fund, Franklin Income VIP Fund, Franklin Large Cap Growth VIP Fund, Franklin Small Mid-Cap Growth VIP Fund, Franklin Strategic Income VIP Fund, Franklin U.S. Government Securities VIP Fund, Franklin VolSmart Allocation VIP Fund, and Templeton Global Bond VIP Fund; (ii) the investment sub-advisory agreements between FAI and each of Franklin Advisory Services, LLC and K2/D&S Management Co., L.L.C. (each a Sub-Adviser), affiliates of FAI, on behalf of the Franklin VolSmart Allocation VIP Fund; (iii) the investment management agreement between Franklin Templeton Institutional, LLC (FTIL) and Franklin Global Real Estate VIP Fund; (iv) the investment management agreement between Franklin Mutual Advisers, LLC (FMA) and each of Franklin Mutual Global Discovery VIP Fund and Franklin Mutual Shares VIP Fund; (v) the investment management agreement between Franklin Advisory Services, LLC (FAS) and each of Franklin Rising Dividends VIP Fund and Franklin Small Cap Value VIP Fund; (vi) the investment management agreement between Templeton Asset Management Ltd. (TAML) and Templeton Developing Markets VIP Fund; (vii) the investment management agreement between Templeton Investment Counsel, LLC (TICL) and Templeton Foreign VIP Fund; and (viii) the investment management agreement between Templeton Global Advisors Limited (TGAL) and Templeton Growth VIP Fund (each a Management Agreement) for an additional one-year period. The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve the continuation of each Management Agreement. Although the Management Agreements for the Funds were considered at the same Board meeting, the Board considered the information provided to it about the Funds together and with respect to each Fund separately as the Board deemed appropriate. FAI, FTIL, FMA, FAS, TAML, TICL, TGAL and the Sub-Advisers are each referred to herein as a Manager.

In considering the continuation of each Management Agreement, the Board reviewed and considered information provided by each Manager at the Meeting and throughout the year at meetings of the Board and its committees. The Board also reviewed and considered information provided in response to a detailed set of requests for information submitted to each Manager by Independent Trustee counsel on behalf of the Independent Trustees in connection with the annual contract renewal process. In addition, prior to the Meeting, the Independent Trustees held a telephonic contract renewal meeting at which the Independent Trustees conferred amongst themselves and Independent Trustee counsel about contract renewal matters. The Board reviewed and considered all of the factors it deemed relevant in approving the continuance of each Management Agreement, including, but not limited to: (i) the nature, extent, and quality of the services provided by each Manager; (ii) the investment performance of each Fund; (iii) the costs of the services provided and profits realized by each Manager and its affiliates from the relationship with each Fund; (iv) the extent to which economies of scale are realized as each Fund grows; and (v) whether fee levels reflect these economies of scale for the benefit of Fund investors.

In approving the continuance of each Management Agreement, the Board, including a majority of the Independent Trustees, determined that the existing management fees are fair and reasonable and that the continuance of such Management Agreement is in the interests of the applicable Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board's determination.

Nature, Extent and Quality of Services
The Board reviewed and considered information regarding the nature, extent and quality of investment management services provided by each Manager and its affiliates to the Funds and their shareholders. This information included, among other things, the qualifications, background and experience of the senior management and investment personnel of each Manager; the structure of investment personnel compensation; oversight of third-party service providers; investment performance reports and related financial information for each Fund; reports on expenses, shareholder services, marketing support payments made to financial intermediaries and third party servicing arrangements; legal and compliance matters; risk controls; pricing and other services provided by each Manager and its affiliates; and management fees charged by each Manager and its affiliates to U.S. funds and other accounts, including management's explanation of differences among accounts where relevant. The Board noted management's continual efforts and expenditures in establishing effective business continuity plans and developing strategies to address areas of heightened concern in the mutual fund industry, such as cybersecurity, derivatives and liquidity risk management.

The Board also reviewed and considered the benefits provided to Fund shareholders of investing in a fund that is part of the Franklin Templeton family of funds. The Board noted the financial position of Franklin Resources, Inc. (FRI), the Managers' parent, and its commitment to the mutual fund business as evidenced by its continued introduction of new funds, reassessment of the fund offerings in response to the market environment and project initiatives and capital investments relating to the services provided to the Funds by the Franklin Templeton Investments (FTI) organization.

Following consideration of such information, the Board was satisfied with the nature, extent and quality of services provided by each Manager and its affiliates to the Funds and their shareholders.

Fund Performance
The Board reviewed and considered the performance results of each Fund over various time periods ended January 31, 2017. The Board considered the performance returns for each Fund in comparison to the performance returns of mutual funds deemed comparable to the Fund included in a universe (Performance Universe) selected by Broadridge Financial Solutions, Inc. (Broadridge), an independent provider of investment company data. The Board received a description of the methodology used by Broadridge to select the mutual funds included in a Performance Universe. The Board also reviewed and considered Fund performance reports provided and discussions that occurred with portfolio managers at Board meetings throughout the year. A summary of each Fund's performance results is below.

Franklin Flex Cap Growth VIP Fund - The Performance Universe for this Fund included the Fund and all multi-cap growth funds underlying variable insurance products (VIPs). The Board noted that the Fund's annualized total return for the one-, three-, five- and 10-year periods was below the median of its Performance Universe. The Board concluded that the Fund's performance was acceptable. In doing so, the Board noted the actions management has taken in an effort to address the Fund's performance, including changes to the Fund's portfolio management team and enhancements to the team's security selection process. The Board also noted that the Fund's annualized total return for each period, while below the median, was positive.

Franklin Global Real Estate VIP Fund - The Performance Universe for this Fund included the Fund and all global real estate funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-, three- and five-year periods was above the median of its Performance Universe, but for the 10-year period was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory.

Franklin Growth and Income VIP Fund - The Performance Universe for this Fund included the Fund and all equity income funds underlying VIPs. The Board noted that the Fund's annualized income return for the one-, three-, five- and 10-year periods was above the median of its Performance Universe. The Board also noted that the Fund's annualized total return for the one-, three- and five-year periods was below the median of its Performance Universe, but for the 10-year period was equal to the median of its Performance Universe. Given the Fund's income-oriented investment objective, the Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that the Fund's annualized total return for each of the one-, three- and five-year periods, while below the median, exceeded 8.2%.

Franklin Income VIP Fund and Franklin Strategic Income VIP Fund - The Performance Universe for the Franklin Income VIP Fund included the Fund and all mixed-asset target allocation moderate funds underlying VIPs. The Performance Universe for the Franklin Strategic Income VIP Fund included the Fund and all general bond funds underlying VIPs. The Board noted that the Funds' annualized income returns for the one-, three-, five- and 10-year periods were above the medians of their respective Performance Universes. The Board also noted that the Funds' annualized total returns for the one-, five- and 10-year periods were above the medians of their respective Performance Universes, but for the three-year period were below the medians of their respective Performance Universes. Given the Funds' income-oriented investment objective, the Board concluded that the Funds' performance was satisfactory.

Franklin Large Cap Growth VIP Fund - The Performance Universe for this Fund included the Fund and all multi-cap growth funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-, five- and 10-year periods was below the median of its Performance Universe, but for the three-year period was above the median of its Performance Universe. The Board concluded that the Fund's performance was acceptable. In doing so, the Board noted the actions management has taken in an effort to address the Fund's performance, including the addition of a portfolio manager and the repositioning of certain of the Fund's portfolio holdings. The Board also noted that the Fund's annualized total return for the one-, five- and 10-year periods, while below the median, exceeded 13.4%, 11.2%, and 5.8%, respectively.

Franklin Mutual Global Discovery VIP Fund - The Performance Universe for this Fund included the Fund and all global multi-cap value funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-year period was below the median of its Performance Universe, but for the three-, five- and 10-year periods was above the median and in the first quintile of its Performance Universe. The Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that the Fund's annualized total return for the one-year period, while below the median, exceeded 21.1%.

Franklin Mutual Shares VIP Fund and Templeton Developing Markets VIP Fund - The Performance Universe for the Franklin Mutual Shares VIP Fund included the Fund and all large-cap value funds underlying VIPs. The Performance Universe for the Templeton Developing Markets VIP Fund included the Fund and all emerging markets funds underlying VIPs. The Board noted that the Funds' annualized total returns for the one-year period were above the medians of their respective Performance Universes, but for the three-, five- and 10-year periods were below the medians of their respective Performance Universes. The Board concluded that the Funds' performance was acceptable. In doing so, the Board noted that the annualized total returns for the one-year period exceeded 23.8% for the Franklin Mutual Shares VIP Fund and 30.6% for the Templeton Developing Markets VIP Fund. The Board also acknowledged management's explanation that the Franklin Mutual Shares VIP Fund is managed conservatively and has historically held higher cash weightings than its peers, detracting from relative performance in sharply rising markets. The Board further noted recent and expected portfolio management team changes for the Templeton Developing Markets VIP Fund. In light of such changes, the Board determined that additional time will be needed to evaluate the effectiveness of management's actions.

Franklin Rising Dividends VIP Fund **-** The Performance Universe for this Fund included the Fund and all multi-cap core funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-, three- and 10-year periods was above the median of its Performance Universe, but for the five-year period was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that the Fund's annualized total return for the five-year period, while below the median, exceeded 11.9%.

Franklin Small Cap Value VIP Fund **-** The Performance Universe for this Fund included the Fund and all small-cap value funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-, five- and 10-year periods was above the median of its Performance Universe, but for the three-year period was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that effective September 30, 2016, the Fund changed its definition of small-capitalization companies and changed its primary benchmark from the Russell 2500 Value Index to the Russell 2000 Value Index. The Board also noted that the definition of "small-capitalization companies" was changed from those with market capitalizations of under $3.5 billion, at the time of purchase, to those with market capitalizations not exceeding either (1) the highest market capitalization in the Russell 2000 Index or (2) the 12-month average of the highest market capitalization in the Russell 2000 Index, whichever is greater, at the time of purchase. The Board further noted that, in light of the change to the definition of small-capitalization companies, the Russell 2000 Value Index will provide a more appropriate comparison for performance purposes and is more commonly used in the Fund's small cap value peer group.

Franklin Small-Mid Cap Growth VIP Fund - The Performance Universe for this Fund included the Fund and all mid-cap growth funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-year period was equal to the median of its Performance Universe, but for the three-, five- and 10-year periods was below the median of its Performance Universe. The Board concluded that the Fund's performance was acceptable. In doing so, the Board noted management's explanation that the Fund's positioning in the health care sector was a primary detractor from benchmark relative performance over the one-, three-, and five-year periods, particularly as a result of recent pricing pressure and public scrutiny on drug price increases for several holdings within the pharmaceutical industry. Management further explained that avoiding certain benchmark holdings due to high valuations also contributed to underperformance, as those companies ultimately performed better than expected. The Board then noted that the investment team continues to believe its approach to active management will contribute to stronger performance over the long-term. The Board also noted that the Fund's annualized total return for the one-year period exceeded 19.4%.

Franklin U.S. Government Securities VIP Fund **-** The Performance Universe for this Fund included the Fund and all general U.S. government funds underlying VIPs. The Board noted that the Fund's annualized income return for the one-, three-, five- and 10-year periods was above the median of its Performance Universe. The Board also noted that the Fund's annualized total return for the one- and 10-year periods was above the median of its Performance Universe, but for the three- and five-year periods was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory given the Fund's income-oriented investment objective and the nature of the Fund's investments, which are primarily in U.S. mortgage-backed securities.

Franklin VolSmart Allocation VIP Fund - The Performance Universe for this Fund included the Fund and all flexible portfolio funds underlying VIPs. The Fund has been in operation for less than five years. The Board noted that the Fund's annualized total return for the one- and three-year periods was below the median of its Performance Universe. The Board concluded that the Fund's performance was acceptable given its short period of operation. In doing so, the Board noted that the Fund's current portfolio management team began managing the Fund in May 2015. The Board further noted that Fund's annualized total return for the one-year period, while below the median, exceeded 8.1%.

Templeton Foreign VIP Fund - The Performance Universe for this Fund included the Fund and all international multi-cap value funds underlying VIPs. The Board noted that the Fund's annualized total return for one- and 10-year periods was above the median of its Performance Universe, but for the three- and five-year periods was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that the Fund's annualized total return for the one-year period was 20.39%.

Templeton Global Bond VIP Fund - The Performance Universe for this Fund included the Fund and all global income funds underlying VIPs. The Board noted that the Fund's annualized income return for the one-year period was below the median of its Performance Universe, but for the three-, five- and 10-year periods was above the median and in the first quintile of its Performance Universe. The Board also noted that the Fund's annualized total return for the one-, three-, five- and 10-year periods was above the median of its Performance Universe. Given the Fund's income-oriented investment objective, the Board concluded that the Fund's performance was satisfactory.

Templeton Growth VIP Fund - The Performance Universe for this Fund included the Fund and all global multi-cap value funds underlying VIPs. The Board noted that the Fund's annualized total return for the one- and five-year periods was above the median and in the second quintile of its Performance Universe, for the three-year period was equal to the median of its Performance Universe, and for the 10-year period was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that the Fund's annualized total return for the one-year period exceeded 22.5%. The Board noted that in the second half of 2016, the MSCI All Country World Index replaced the MSCI World Index as the Fund's primary benchmark.

Comparative Fees and Expenses

The Board reviewed and considered information regarding each Fund's actual total expense ratio and its various components, including, as applicable, management fees; transfer agent expenses; underlying fund expenses; Rule 12b-1 and non-Rule 12b-1 service fees; and other non-management fees. The Board also noted that at its February meeting each year, it receives an annual report on all marketing support payments made by FTI to financial intermediaries. The Board considered the actual total expense ratio and, separately, the contractual management fee rate, without the effect of fee waivers, if any (Management Rate) of each Fund, in comparison to the median ratio and median Management Rate, respectively, of other mutual funds deemed comparable to and with a similar expense structure as the Fund selected by Broadridge (Expense Group). Broadridge fee and 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 and Management Rates generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Broadridge to be an appropriate measure of comparative fees and expenses. The Broadridge Management Rate includes administrative charges. The Board received a description of the methodology used by Broadridge to select the mutual funds included in an Expense Group.

Franklin Flex Cap Growth VIP Fund - The Expense Group for the Fund included the Fund and nine other multi-cap growth funds underlying VIPs. The Board noted that the Management Rate for the Fund was above the median of its Expense Group, but its actual total expense ratio was below the median of its Expense Group. The Board concluded that the Management Rate charged to the Fund is fair and reasonable. In doing so, the Board noted that the Fund's actual total expense ratio reflected a fee waiver from management.

Franklin Growth and Income VIP Fund, Franklin Income VIP Fund, Franklin Rising Dividends VIP Fund, Franklin Small Cap Value VIP Fund, Franklin Strategic Income VIP Fund, Franklin U.S. Government Securities VIP Fund, Templeton Foreign VIP Fund and Templeton Global Bond VIP Fund - The Expense Group for the Franklin Growth and Income VIP Fund included the Fund and six other equity income funds underlying VIPs. The Expense Group for the Franklin Income VIP Fund included the Fund and five other mixed-asset target allocation moderate funds underlying VIPs. The Expense Group for the Franklin Rising Dividends VIP Fund included the Fund and eight other multi-cap core funds underlying VIPs. The Expense Group for the Franklin Small Cap Value VIP Fund included the Fund and seven other small-cap value funds underlying VIPs. The Expense Group for the Franklin Strategic Income VIP Fund included the Fund and eight other general bond funds underlying VIPs. The Expense Group for the Franklin U.S. Government Securities VIP Fund included the Fund and six other general U.S. government funds underlying VIPs. The Expense Group for the Templeton Foreign VIP Fund included the Fund, five other international multi-cap value funds underlying VIPs and four international multi-cap core funds underlying VIPs. The Expense Group for the Templeton Global Bond VIP Fund included the Fund and six other global income funds underlying VIPs. The Board noted that the Management Rates and actual total expense ratios for these Funds were below the medians of their respective Expense Groups. The Board concluded that the Management Rates charged to these Funds are fair and reasonable. In doing so, the Board noted that, effective May 1, 2017, management agreed to add an additional breakpoint level of 0.4900% on assets that exceed $5 billion to the Franklin Rising Dividends VIP Fund's Management Rate. The Board also noted that the Franklin Growth and Income VIP Fund's actual total expense ratio reflected a fee waiver from management.

Franklin Small-Mid Cap Growth VIP Fund - The Expense Group for the Fund included the Fund and ten other mid-cap growth funds underlying VIPs. The Board noted that the Management Rate and actual total expense ratio for the Fund were each equal to the medians of its Expense Group. The Board concluded that the Management Rate charged to the Fund is fair and reasonable.

Franklin VolSmart Allocation VIP Fund – The Expense Group for the Fund included the Fund and four other flexible portfolio funds underlying VIPs. The Board noted the small size of the Expense Group. The Board also noted that the Management Rate for the Fund was below the median of its Expense Group and its actual total expense ratio (including underlying fund expenses) was equal to the median of its Expense Group. The Board concluded that the Management Rate charged to the Fund is fair and reasonable. In doing so, the Board noted that the Fund's actual total expense ratio reflected a fee waiver from management and that the Sub-Advisers were paid by FAI out of the management fee FAI received from the Fund.

Franklin Global Real Estate VIP Fund, Franklin Large Cap Growth VIP Fund, Franklin Mutual Global Discovery VIP Fund, Franklin Mutual Shares VIP Fund, Templeton Developing Markets VIP Fund and Templeton Growth VIP Fund - The Expense Group for the Franklin Global Real Estate VIP Fund included the Fund and five other global real estate funds underlying VIPs. The Expense Group for the Franklin Large Cap Growth VIP Fund included the Fund and 10 other multi-cap growth funds underlying VIPs. The Expense Group for the Franklin Mutual Global Discovery VIP Fund included the Fund, two other global multi-cap value funds underlying

VIPs and four global multi-cap core funds underlying VIPs. The Expense Group for the Franklin Mutual Shares VIP Fund included the Fund and eight other large-cap value funds underlying VIPs. The Expense Group for the Templeton Developing Markets VIP Fund included the Fund and nine other emerging markets funds underlying VIPs. The Expense Group for the Templeton Growth VIP Fund included the Fund, two other global multi-cap value funds underlying VIPs, four global multi-cap core funds underlying VIPs and two global multi-cap growth funds underlying VIPs. The Board noted that the Management Rates and actual total expense ratios for these Funds were above the medians of their respective Expense Groups. The Board concluded that the Management Rates charged to the Funds are fair and reasonable. In doing so, the Board noted that the Management Rate for the Franklin Large Cap Growth VIP Fund was only one basis point above the median of its Expense Group. With respect to the Franklin Mutual Shares VIP Fund and the Franklin Mutual Global Discovery VIP Fund, the Board took into account management's explanation that the portfolio management team makes investments in distressed securities and merger arbitrage that are specialist in nature and therefore merit a higher Management Rate. In the case of each of the Franklin Mutual Shares VIP Fund and the Templeton Growth VIP Fund, the respective Fund's actual total expense ratio was only one basis point above the median ratio of the Fund's Expense Group. Finally, with respect to the Franklin Global Real Estate VIP Fund, the Board accepted management's explanation that the portfolio managers' rigorous fundamental analysis with the inclusion of more active risk controls merits a higher Management Rate.

Profitability
The Board reviewed and considered information regarding the profits realized by each Manager and its affiliates in connection with the operation of each Fund. In this respect, the Board considered the Fund profitability analysis provided by each Manager that addresses the overall profitability of FTI's U.S. fund business, as well as its profits in providing investment management and other services to each of the individual funds during the 12-month period ended September 30, 2016, being the most recent fiscal year-end for FRI. The Board noted that although management continually makes refinements to its methodologies used in calculating profitability in response to organizational and product related changes, the overall methodology has remained consistent with that used in the Funds' profitability report presentations from prior years. Additionally, the Funds' independent registered public accounting firm has been engaged by each Manager to periodically review the reasonableness of the allocation methodologies to be used solely by the Funds' Board with respect to the profitability analysis.

The Board noted management's belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by each Manager and its affiliates may not be fully reflected in the expenses allocated to each Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. The Board also noted management's expenditures in improving shareholder services provided to the Funds, as well as the need to implement systems and meet additional regulatory and compliance requirements resulting from recent SEC and other regulatory requirements.

The Board also considered the extent to which each Manager and its affiliates might derive ancillary benefits from fund operations, including revenues generated from transfer agent services, potential benefits resulting from personnel and systems enhancements necessitated by fund growth, as well as increased leverage with service providers and counterparties. Based upon its consideration of all these factors, the Board concluded that the level of profits realized by each Manager and its affiliates from providing services to each Fund was not excessive in view of the nature, quality and extent of services provided to each Fund.

Economies of Scale
The Board reviewed and considered the extent to which each Manager may realize economies of scale, if any, as each Fund grows larger and whether the Fund's management fee structure reflects any economies of scale for the benefit of shareholders. With respect to possible economies of scale, the Board noted the existence of management fee breakpoints for each Fund (except for the Franklin VolSmart Allocation VIP Fund), which operate generally to share any economies of scale with a Fund's shareholders by reducing the Fund's effective management fees as the Fund grows in size. The Board considered each Manager's view that any analyses of potential economies of scale in managing a particular fund are inherently limited in light of the joint and common costs and investments each Manager incurs across the Franklin Templeton family of funds as a whole. The Board concluded that to the extent economies of scale may be realized by each Manager and its affiliates, each Fund's management fee structure (except that of the Franklin VolSmart Allocation VIP Fund) provided a sharing of benefits with the Fund and its shareholders as the Fund grows.

The Board recognized that there would not likely be any economies of scale for each of the Franklin Flex Cap Growth VIP Fund and Franklin VolSmart Allocation VIP Fund until the Fund's assets grow.

Conclusion
Based on its review, consideration and evaluation of all factors it believed relevant, including the above-described factors and conclusions, the Board unanimously approved the continuation of each Management Agreement for an additional one-year period.

Board Approval of Investment Management Agreements

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

Franklin Rising Dividends VIP Fund
(Fund)

At a meeting held on May 23, 2017 (Meeting), the Board of Trustees (Board) of Franklin Templeton Variable Insurance Products Trust (Trust), including a majority of the trustees who are not "interested persons" as defined in the Investment Company Act of 1940 (Independent Trustees), reviewed and approved, and recommended to shareholders the approval of, a new investment management agreement between Franklin Advisers, Inc. (Manager) and the Fund (Management Agreement) for an initial two year period effective on or about December 1, 2017. The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve the Management Agreement.

The Board reviewed and considered information provided by the Manager at the Meeting. The Board also considered a form of Management Agreement, which is consistent with the agreements used across the Franklin Templeton Investments (FTI) organization, as well as the Code of Ethics and Insider Trading Compliance Policies and Procedures applied to the employees of the Manager. The Board discussed with FTI the reasons for its request that the Board approve the Management Agreement, including the benefits of the current portfolio management team, who would become employees of the Manager, having access to additional resources. The Board reviewed and considered all of the factors it deemed relevant in approving the Management Agreement, including, but not limited to: (i) the nature, extent, and quality of the services to be provided by the Manager; and (ii) the costs of the services, which are to remain unchanged. The Board also considered that the change in the investment manager for the Fund facilitates a restructuring of the Fund's current investment manager, Franklin Advisory Services, LLC (FASL), and the relocation of substantially all of the Fund's current portfolio management team from FASL to the Manager. In determining that the Management Agreement is fair and reasonable, the Board also noted that the Management Agreement is substantially the same as the Fund's current investment management agreement with FASL and does not reflect a substantially new or different level of services to or fees payable by the Fund.

Nature, Extent and Quality of Services
The Board considered information regarding the nature, extent and quality of investment management services to be provided by the Manager and its affiliates to the Fund and its shareholders. In particular, the Board took into account that the Fund will have the same investment goals, principal investment policies, and service provider arrangements (except with respect to the Manager) and other key factors. The Board discussed the fact that the same portfolio management team would serve the Fund but that there would be benefits to having them join the investment professionals at the Manager with a similar investment style. This realignment would promote greater collaboration through the sharing of resources and investment ideas. It also noted the Manager's experience as manager of other funds and accounts, including those within the Franklin Templeton Investments (FTI) organization; the personnel, operations, financial condition, and investment management capabilities, methodologies and resources of the Manager and the Manager's capabilities, as demonstrated by, among other things, its policies and procedures designed to prevent violations of the Federal securities laws, which had previously been approved by the Board in connection with its oversight of other funds in the FTI organization.

Following consideration of such information, the Board was satisfied with the nature, extent and quality of services to be provided by the Manager and its affiliates to the Fund and its shareholders.

Fund Performance
The Board noted that in connection with the restructuring of FASL that substantially all of the Fund's current portfolio management team would be relocated from FASL to the Manager. The Board considered the track record of such portfolio management team in managing the Fund, which was reviewed most recently by the Board in April 2017 as part of the annual contract renewal process. With that, and the additional resources available to the portfolio management

team by joining the Manager, the Board was confident in the abilities of such portfolio management team to continue the investment approach of the Fund and to provide quality services to the Fund and its shareholders.

Comparative Fees and Expenses
The Board reviewed and considered information regarding the investment management fee to be charged by the Manager. The Board noted that the management fee to be paid by the Fund under the Management Agreement is identical to the management fee the Fund currently pays FASL, which fee was found to be acceptable in connection with the April 2017 annual contract renewal process. The Board concluded that the proposed investment management fee is fair and reasonable.

Management Profitability and Economies of Scale
The Board determined that its conclusions regarding profitability and economies of scale reached in connection with the April 2017 annual contract renewal of the existing investment management agreement with FASL that would continue in effect until the date the new Management Agreement becomes effective had not changed as a result of the proposed retention of the Manager in connection with the restructuring of FASL.

Conclusion
Based on its review, consideration and evaluation of all factors it believed relevant, including the above-described factors and conclusions, the Board unanimously approved the new Management Agreement for an initial two year period effective on or about December 1, 2017.

Board Approval of Investment Management Agreements

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

Templeton Developing Markets VIP Fund
(Fund)

At an in-person meeting held on May 23, 2017 (Meeting), the Board of Trustees (Board) of the Franklin Templeton Variable Insurance Products Trust, including a majority of the trustees who are not “interested persons” as defined in the Investment Company Act of 1940 (Independent Trustees), reviewed and approved, and recommended shareholder approval of, a new investment sub-advisory agreement between Templeton Asset Management Ltd. (Manager), the Fund’s investment manager, and Franklin Templeton Investment Management Limited (Sub-Adviser), an affiliate of the Manager, on behalf of the Fund (Sub-Advisory Agreement) for an initial two year period. The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve the Sub-Advisory Agreement.

The Board reviewed and considered information provided by the Manager at the Meeting with respect to the Sub-Advisory Agreement. The Board reviewed and considered the factors it deemed relevant in approving the Sub-Advisory Agreement, including, but not limited to: (i) the nature, extent, and quality of the services to be provided by the Sub-Adviser; and (ii) the costs of the services to be provided by the Sub-Adviser. The Board considered that management proposed that the Board approve the Sub-Advisory Agreement in order to facilitate certain portfolio management team enhancements.

In approving the Sub-Advisory Agreement, the Board, including a majority of the Independent Trustees, determined that the proposed investment sub-advisory fees are fair and reasonable and that the approval of such Sub-Advisory Agreement is in the interests of the Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board’s determination.

Nature, Extent and Quality of Services
The Board reviewed and considered information regarding the nature, extent and quality of investment management services to be provided by the Sub-Adviser and currently being provided by the Manager and its affiliates to the Fund and its shareholders. In particular, with respect to the Sub-Adviser, the Board took into account that the Sub-Advisory Agreement would not affect how the Fund is managed or the Fund’s investment goal, principal investment strategies or principal risks associated with an investment in the Fund. The Board reviewed and considered information regarding the nature, quality and extent of investment sub-advisory services to be provided by the Sub-Adviser to the Fund and its shareholders under the Sub-Advisory Agreement; the Sub-Adviser’s experience as manager of other funds and accounts, including those within the Franklin Templeton Investments (FTI) organization; the personnel, operations, financial condition, and investment management capabilities, methodologies and resources of the Sub-Adviser and the Sub-Adviser’s capabilities, as demonstrated by, among other things, its policies and procedures designed to prevent violations of the Federal securities laws, which had previously been approved by the Board in connection with its oversight of other funds in the FTI organization.

The Board also reviewed and considered the benefits provided to Fund shareholders of investing in a fund that is part of the Franklin Templeton family of funds. The Board noted the financial position of Franklin Resources, Inc. (FRI), the Manager's and the Sub-Adviser's parent, and its commitment to the mutual fund business as evidenced by its continued introduction of new funds, reassessment of the fund offerings in response to the market environment and project initiatives and capital investments relating to the services provided to the Fund by the (FTI) organization.

Following consideration of such information, the Board was satisfied with the nature, extent and quality of services to be provided by the Sub-Adviser to the Fund and its shareholders.

Fund Performance
The Board noted its review and consideration of the performance results of the Fund in connection with the April 2017 annual contract renewal. The Board recalled its conclusion at that time that the Fund's performance was acceptable. The Board further recalled recent and expected portfolio management team changes for the Fund and again determined that, in light of these changes, additional time will be needed to evaluate the effectiveness of management's actions.

Comparative Fees and Expenses
The Board reviewed and considered information regarding the investment sub-advisory fee to be charged by the Sub-Adviser. The Board noted that the addition of the Sub-Adviser will have no impact on the amount of management fees that are currently paid by the Fund as the Sub-Adviser will be paid by the Manager out of the management fee that the Manager receives from the Fund. The Board further noted that the allocation of the fee between the Manager and the Sub-Adviser reflected the services to be provided by each. The Board concluded that the proposed investment sub-advisory fee is fair and reasonable.

Management Profitability and Economies of Scale
The Board determined that its conclusions regarding profitability and economies of scale reached in connection with the April 2017 annual contract renewal of the existing investment management agreement with the Manager had not changed as a result of the proposal to approve the Sub-Advisory Agreement.

Conclusion
Based on its review, consideration and evaluation of all factors it believed relevant, including the above-described factors and conclusions, the Board unanimously approved the Sub-Advisory Agreement for an initial two year period.

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.