

Annual report to  
contract holders for the year  
ended December 31, 2002

# Annual report

For contract holders of Scudder Destinations<sup>SM</sup>

The Alger American Fund

Credit Suisse Trust

Dreyfus Investment Portfolios

The Dreyfus Socially Responsible Growth Fund, Inc.

INVESCO VIF — Utilities Fund

Scudder Variable Series I

Scudder Variable Series II

Janus Aspen Series



# **The Alger American Fund**

**Alger American  
Balanced Portfolio**

## **Annual Report**

**December 31, 2002**



# Dear Shareholders,

January 24, 2003

The year ended December 31, 2002 had a Jekyll-and-Hyde character. The economy gradually recovered from the recession of 2001; that was the good side. The markets, however, stumbled badly. For the year, the economy grew an estimated 2.5%. However, the Dow Jones Industrial Average was down 15%, the S&P 500 lost 22%, and the Nasdaq was down 31%. It was the third year in a row that the Dow posted negative returns, which hadn't happened since 1939-1941. Perhaps the only reassuring aspect of these statistics is that only once in its history has the Dow posted four down years in a row, and that makes it highly unlikely that 2003 will repeat the pattern of 2000-2002.

Obviously, given the results of the major indices, the bulk of equity mutual funds had negative returns. Growth funds, which typically lead the market during an up period, were especially hard hit. Corporate America, and to a lesser degree corporations internationally, pared back their capital expenditures on technology. After substantial spending in the late 1990s, companies focused on making the most productive use of their information technologies. While this is a normal part of an innovation cycle, in the short-term it can look like contraction. In fact, companies are becoming increasingly efficient because they are only now making productive use of the new technologies acquired in the late 1990s and into 2000. But rather than spending more, companies drew down their inventories, cleaned up their balance sheets, pared back their labor force, and improved operating margins. Productivity remains extremely high and consumer spending, which now accounts for more than two-thirds of GDP, remained at healthy levels. Unemployment rose to 6.0% and much of the job loss was in the manufacturing, finance and travel industries; the manufacturing job loss in particular is part of a multi-year shift in the U.S. economy away from manufacturing and toward services.

Looking at the year in perspective, it should be clear that the economic situation should have been worse. The United States was caught in a "perfect storm:" a combination of the severe equity decline, the consolidation and commoditization of the tech industry, the political and economic aftershocks of 9/11, and, finally, the crisis of investor confidence in the wake of Wall Street scandals that began with Enron and then expanded to include not only other companies such as WorldCom, but Wall Street research and investment practices as well. Yet this perfect storm did not derail the economy. For sure, it has hurt economic growth and several sectors have suffered. The past few years have been painful, but the economy has weathered a remarkable series of shocks. Perfect storms are rare and we doubt that the future will pose challenges as grave as the ones that have already confronted us, even with the continued threat of international terrorism and rogue states.

Echoing the performance trend of 2001, gains in the Alger American Balanced Portfolio's fixed-income holdings offset much of the losses produced by its equity investments. In 2002, the portfolio declined 12.29%, compared with a gain of 11.02% for the Lehman Brothers Government/Credit Bond Index and a loss of 27.89% for the Russell 1000 Growth Index. Strong stock market performance in the fourth quarter helped the portfolio gain 1.53% during that period. Information technology stocks accounted for the most significant equity losses in 2002, while modest gains in the consumer staples segment provided the main support to equity performance. At year end, health care and information technology stocks together represented approximately half of the portfolio's equity holdings. The most significant investment shift occurred in the consumer discretionary sector, which grew to represent more than 15% of the portfolio as of December 31. Despite short-term uncertainty stemming from rising tensions in Iraq and North Korea, we believe the portfolio has the potential to benefit from improved economic conditions in 2003.

## Looking Ahead

The economy appears to be in a period of slow, sustainable economic growth. International uncertainties, investor wariness, and high energy prices are concerns, but even factoring those in, we anticipate that the overall economy will show slightly better growth for 2003 than for 2002, and will eventually fall in the range of 2.5% to 3.0%. In a period of very low inflation, we believe that is respectable. As companies continue to pay down debt, improve their corporate governance and clean up their balance sheets, they will be in a position once again to increase their capital spending, and when they do so, they will supply the missing ingredient that has kept growth modest rather than robust. The federal government has been doing its part to keep the economy moving, with an unusual cocktail of spending, low interest rates, and tax cuts. The equity markets, which after all are a reflection of the economy, have come down to much more reasonable levels. Valuations now look attractive, especially given that the economy is growing and poised, we believe, for even faster growth. We will continue to search for the most efficient, most dynamic, and most innovative companies that can deliver consistent earnings growth and therefore superior returns to our investors.

Respectfully submitted,



Dan C. Chung  
Chief Investment Officer

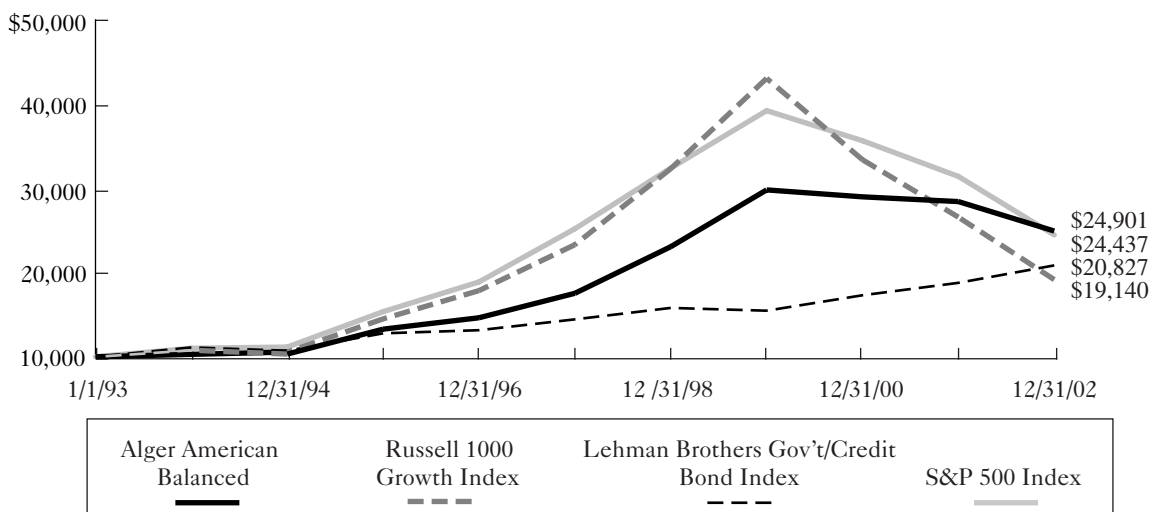
## TABLE OF CONTENTS

Portfolio Highlights .....	3
Schedule of Investments .....	4
Financial Highlights .....	7
Statement of Assets and Liabilities .....	8
Statement of Operations .....	9
Statements of Changes in Net Assets .....	10
Notes to Financial Statements .....	11
Report of Independent Auditors .....	14

## ALGER AMERICAN BALANCED PORTFOLIO

### Portfolio Highlights Through December 31, 2002 (Unaudited)

#### HYPOTHETICAL \$10,000 INVESTMENT—10 Years Ended December 31, 2002



The chart above illustrates the growth in value of a hypothetical \$10,000 investment made in Alger American Balanced Class O shares, the Russell 1000 Growth Index, the S&P 500 Index, and the Lehman Brothers Government/Credit Bond Index for the ten years ended December 31, 2002. Figures for the Alger American Balanced Portfolio Class O shares, the Russell 1000 Growth Index (an unmanaged index of common stocks), the S&P 500 Index (an unmanaged index of common stocks), and the Lehman Brothers Government/Credit Bond Index (an unmanaged index of government and corporate bonds), include reinvestment of dividends and/or interest. Performance for the Alger American Balanced Class S shares will vary from the results shown above due to differences in expenses that class bears. The Portfolio has changed one of its comparative indices to the Russell 1000 Growth Index. Fund management believes this index more closely represents the stocks in which the Portfolio normally invests.

#### PERFORMANCE COMPARISON THROUGH December 31, 2002

	Average Annual Total Returns			
	1 Year	5 Years	10 Years	Since Inception
Class O (Inception 9/5/89)	(12.29%)	7.28%	9.55%	8.92%
Russell 1000 Growth Index	(27.89%)	(3.84%)	6.71%	8.37%
S&P 500 Index	(22.10%)	(0.58%)	9.35%	9.57%
Lehman Brothers Gov't/Credit Bond Index	11.02%	7.61%	7.61%	8.40%
Class S (Inception 5/1/02)	*	*	*	(8.24%)
Russell 1000 Growth Index	*	*	*	(19.39%)
S&P 500 Index	*	*	*	(17.30%)
Lehman Brothers Gov't/Credit Bond Index	*	*	*	9.43%

Performance figures do not reflect deduction of insurance charges against assets or annuities. If these charges were deducted, the total return figures would be lower. Past performance does not guarantee future results.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**SCHEDULE OF INVESTMENTS—DECEMBER 31, 2002**

<u>Shares</u>	<b>COMMON STOCKS—50.2%</b>	<u>Value</u>	<u>Shares</u>	<u>Value</u>
	<b>AEROSPACE &amp; DEFENSE—2.1%</b>			<b>INDUSTRIAL CONGLOMERATES—1.3%</b>
41,570	General Dynamics Corporation .....	\$ 3,299,411	199,960	Tyco International Ltd. ....
35,200	Lockheed Martin Corporation .....	2,032,800		<b>INFORMATION TECHNOLOGY</b>
		<u>5,332,211</u>		<b>CONSULTING &amp; SERVICES—1.3%</b>
	<b>AUTOMOTIVE—0.8%</b>		183,650	Accenture Ltd. Cl. A* .....
41,750	Harley-Davidson, Inc. ....	<u>1,928,850</u>		<b>INSURANCE—2.4%</b>
	<b>BANKS—0.2%</b>		56,250	AFLAC Incorporated .....
24,000	Mellon Financial Corporation .....	<u>626,640</u>	44,450	American International Group, Inc. ....
	<b>BEVERAGES—0.5%</b>		35,715	Chubb Corporation (The) .....
27,200	Coca-Cola Company .....	<u>1,191,904</u>		<u>6,130,005</u>
	<b>BIOTECHNOLOGY—1.8%</b>		65,800	<b>INTERNET &amp; CATALOG RETAIL—1.8%</b>
73,046	Amgen Inc.* .....	3,531,044		eBay Inc.* .....
28,200	Biogen, Inc.* .....	<u>1,129,692</u>		<b>INTERNET SOFTWARE &amp; SERVICES—0.5%</b>
		<u>4,660,736</u>	81,600	Yahoo! Inc.* .....
	<b>COMMERCIAL SERVICES &amp; SUPPLIES—0.6%</b>			<u>1,334,160</u>
35,640	Concord EFS, Inc.* .....	560,974		<b>MEDIA—2.9%</b>
28,900	First Data Corporation .....	<u>1,023,349</u>	143,500	AOL Time Warner Inc.* .....
		<u>1,584,323</u>	195,000	Disney (Walt) Company .....
	<b>COMMUNICATION EQUIPMENT—2.6%</b>		59,525	Viacom Inc. Cl. B* .....
284,650	Cisco Systems, Inc.* .....	3,728,915		<u>7,486,539</u>
181,350	Nokia Corporation, ADR .....	<u>2,810,925</u>		<b>MULTILINE RETAIL—1.2%</b>
		<u>6,539,840</u>	60,650	Wal-Mart Stores, Inc. ....
	<b>COMPUTERS &amp; PERIPHERALS—3.2%</b>			<u>3,063,432</u>
92,900	Dell Computer Corporation* .....	2,484,146		<b>OIL &amp; GAS—1.4%</b>
123,850	EMC Corporation* .....	760,439	76,340	Devon Energy Corporation .....
86,100	Hewlett-Packard Company .....	1,494,696		<u>3,504,006</u>
21,425	Lexmark International, Inc. Cl. A* .....	1,296,213		<b>PERSONAL PRODUCTS—1.1%</b>
675,100	Sun Microsystems, Inc.* .....	<u>2,099,561</u>	50,375	Avon Products, Inc. ....
		<u>8,135,055</u>		<u>2,713,701</u>
	<b>DIVERSIFIED FINANCIALS—1.4%</b>		96,825	<b>PHARMACEUTICALS—7.4%</b>
105,365	Citigroup Inc. ....	<u>3,707,794</u>	41,500	Abbott Laboratories .....
	<b>ENERGY EQUIPMENT &amp; SERVICES—0.8%</b>		66,700	Bristol-Myers Squibb Company .....
59,400	BJ Services Company* .....	<u>1,919,214</u>	22,500	Johnson & Johnson .....
	<b>FREIGHT &amp; LOGISTICS—1.1%</b>		21,500	Merck & Co., Inc. ....
49,675	FedEx Corp. ....	<u>2,693,379</u>	117,350	Pfizer Inc. ....
	<b>HEALTH CARE EQUIPMENT &amp; SUPPLIES—2.6%</b>		94,225	Pharmacia Corporation .....
14,300	Alcon, Inc.* .....	564,135		Wyeth .....
27,825	Boston Scientific Corporation* .....	1,183,118		<u>18,776,407</u>
32,350	Stryker Corporation .....	2,171,332		<b>SEMICONDUCTOR EQUIPMENT &amp;</b>
65,500	Zimmer Holdings, Inc.* .....	<u>2,719,560</u>		<b>PRODUCTS—2.9%</b>
		<u>6,638,145</u>	198,800	Applied Materials, Inc.* .....
	<b>HEALTH CARE PROVIDERS &amp; SERVICES—1.3%</b>		27,100	Intel Corporation .....
40,150	UnitedHealth Group Incorporated .....	<u>3,352,525</u>	82,250	Linear Technology Corporation .....
	<b>HOUSEHOLD PRODUCTS—1.4%</b>		306,325	Taiwan Semiconductor Manufacturing
42,575	Procter & Gamble Company (The) .....	<u>3,658,896</u>		Company Ltd. ADR* .....
				<u>2,159,591</u>
				<u>7,287,372</u>
			89,850	<b>SOFTWARE—2.9%</b>
			123,000	Microsoft Corporation* .....
			31,100	Oracle Corporation* .....
				Synopsys, Inc.* .....
				<u>4,645,245</u>
				<u>1,328,400</u>
				<u>1,435,265</u>
				<u>7,408,910</u>

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**SCHEDULE OF INVESTMENTS—DECEMBER 31, 2002 (Cont'd)**

<u>Shares</u>	<u>COMMON STOCKS—(Cont'd)</u>	<u>Value</u>	<u>Principal Amount</u>	<u>Value</u>
	<b>SPECIALTY RETAIL—1.2%</b>			
28,275	Lowe's Companies, Inc. ....	\$ 1,060,313	\$ 750,000	
108,800	TJX Companies, Inc. (The) .....	2,123,775		
		<u>3,184,088</u>	2,000,000	
	<b>WIRELESS TELECOMMUNICATION SERVICES—1.5%</b>			
218,100	Vodafone Group PLC Sponsored ADR .....	3,951,972		
	<b>Total Common Stocks (Cost \$127,739,469)</b> .....	<u>127,991,840</u>	1,000,000	
	<b>CORPORATE BONDS—18.6%</b>			
	<b>AEROSPACE &amp; DEFENSE—.8%</b>			
\$ 2,000,000	Boeing Capital Corp., 6.50%, 2/15/12 .....	2,150,520	1,000,000	
	<b>AUTOMOTIVE—1.3%</b>			
1,500,000	Ford Motor Credit Company, 7.375%, 2/1/11 .....	1,442,325	1,000,000	
2,000,000	General Motors Acceptance Corp., 6.125%, 1/22/08 .....	1,982,500	1,000,000	
		<u>3,424,825</u>	1,000,000	
	<b>BANKS—2.5%</b>			
2,000,000	Associates Corp. North America, 6.95%, 11/1/18 .....	2,285,700	1,000,000	
1,500,000	Bank of America Corp., 7.40%, 1/15/11 .....	1,767,465	1,000,000	
913,000	US Bancorp National Association, Minneapolis, 6.50%, 2/1/08 .....	1,027,790	1,000,000	
1,300,000	Washington Mutual, Inc., 4.375%, 1/15/08 .....	1,331,928	1,250,000	
		<u>6,412,883</u>		
	<b>BEVERAGES—1.3%</b>			
1,500,000	Anheuser-Busch Companies, Inc., 7.00%, 12/1/25 .....	1,621,875	1,500,000	
1,500,000	Coca-Cola Enterprises Inc., 5.25%, 5/15/07 .....	1,603,245	1,055,000	
		<u>3,225,120</u>	1,000,000	
	<b>CABLE—.3%</b>			
695,000	Cox Communications, Inc., 7.125%, 10/1/12 .....	750,378	1,000,000	
	<b>COMPUTERS &amp; PERIPHERALS—.4%</b>			
1,000,000	International Business Machines Corp., 6.22%, 8/1/27 .....	1,111,340	500,000	
	<b>DIVERSIFIED FINANCIALS—2.7%</b>			
500,000	Block Financial Corp., 8.50%, 4/15/07 .....	581,975	750,000	
1,000,000	Citigroup Inc., 6.00%, 2/21/12 .....	1,073,320	900,000	
2,000,000	Goldman Sachs Group, Inc. (The), 6.60%, 1/15/12 .....	2,213,940		
	<b>DIVERSIFIED FINANCIALS—(Cont'd)</b>			
	J.P. Morgan Chase & Co., 6.625%, 3/15/12 .....			\$ 855,383
	Morgan Stanley Dean Witter & Co., 6.75%, 4/15/11 .....			<u>2,216,400</u>
				<u>6,941,018</u>
	<b>DIVERSIFIED TELECOMMUNICATION SERVICES—2.3%</b>			
	Deutsche Telekom International, Finance BN, 8.50%, 6/15/10 .....			1,152,250
	SBC Communications Inc., 6.25%, 3/15/11 .....			1,106,450
	Verizon Global Funding Corp., 7.38%, 9/1/12 .....			1,149,450
	Verizon Wireless Capital LLC Floating Rate Note, 2.22%, 12/17/03 .....			997,000
	Verizon Wireless Capital LLC Note, 5.375%, 12/15/06 .....			<u>1,291,363</u>
				<u>5,696,513</u>
	<b>ELECTRIC UTILITIES—1.0%</b>			
	Con Edison Company Of New York, 5.625%, 7/1/12 .....			1,573,875
	Potomac Electric Power Co., 7.00%, 1/15/24 .....			408,256
	Washington Gas Light Co., 6.51%, 8/18/08 .....			<u>553,110</u>
				<u>2,535,241</u>
	<b>ENERGY EQUIPMENT &amp; SERVICES—.7%</b>			
	Baker Hughes Inc., 6.25%, 1/15/09 .....			<u>1,651,770</u>
	<b>FOOD &amp; DRUG RETAILING—.4%</b>			
	Safeway Inc., 6.15%, 3/1/06 .....			<u>1,073,190</u>
	<b>FOOD PRODUCTS—1.4%</b>			
	Archer-Daniels-Midland Co., 8.875%, 4/15/11 .....			1,367,660
	Kraft Foods Inc., 6.25%, 6/1/12 .....			1,114,340
	Sara Lee Corp., 6.25%, 9/15/11 .....			<u>1,109,510</u>
				<u>3,591,510</u>
	<b>INSURANCE—.5%</b>			
	Loews Corp., 7.625%, 6/1/23 .....			517,875
	Safeco Corporation, 7.25%, 9/1/12 .....			<u>780,000</u>
				<u>1,297,875</u>
	<b>MEDIA—1.4%</b>			
	AOL Time Warner Inc., 6.875%, 5/1/12 .....			942,228



**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**SCHEDULE OF INVESTMENTS—DECEMBER 31, 2002 (Cont'd)**

<u>Principal Amount</u>	<b>CORPORATE BONDS—(Cont'd)</b>	<u>Value</u>	<u>Principal Amount</u>	<b>Value</b>
	<b>MEDIA—(Cont'd)</b>			
\$ 1,500,000	Disney (Walt) Company, 4.875%, 7/2/04 .....	\$ 1,547,775	\$ 1,000,000	U.S. Treasury Bonds, 7.50%, 11/15/16 .....
950,000	Viacom Inc., 7.875%, 7/30/30 .....	<u>1,160,843</u>	1,000,000	8.875%, 8/15/17 .....
		<u>3,650,846</u>	3,681,000	8.125%, 8/15/19 .....
	<b>OIL &amp; GAS—.7%</b>		4,941,000	6.25%, 8/15/23 .....
1,500,000	Conoco Funding Co., 6.35%, 10/15/11 .....	<u>1,642,890</u>	2,873,000	6.00%, 2/15/26 .....
			2,000,000	5.50%, 8/15/28 .....
	<b>PHARMACEUTICALS—.4%</b>		1,107,000	5.25%, 11/15/28 .....
1,000,000	Pharmacia Corporation, 6.50%, 12/1/18 .....	<u>1,089,950</u>	1,000,000	5.25%, 2/15/29 .....
			625,000	5.375%, 2/15/31 .....
	<b>WIRELESS TELECOMMUNICATION SERVICES—.5%</b>			U.S. Treasury Notes, 4.25%, 5/31/03 .....
1,000,000	Vodafone Airtouch PLC, 7.75%, 2/15/10 .....	<u>1,146,590</u>	1,000,000	3.625%, 8/31/03 .....
			1,000,000	4.25%, 11/15/03 .....
	<b>Total Corporate Bonds</b>		800,000	6.00%, 8/15/04 .....
	<b>(Cost \$45,540,804)</b> .....	<u>47,392,459</u>	2,719,000	1.875%, 9/30/04 .....
			1,000,000	5.875%, 11/15/04 .....
	<b>CORPORATE INVESTMENT</b>		2,300,000	2.00%, 11/30/04 .....
	<b>GRADE TRUST—.9%</b>		1,500,000	6.50%, 5/15/05 .....
2,250,000	Core Investment Grade Bond Trust I, 4.727%, 11/30/07 .....	<u>2,274,975</u>	3,000,000	6.75%, 5/15/05 .....
	<b>(Cost \$2,250,000)</b> .....		1,550,000	6.50%, 8/15/05 .....
			3,000,000	5.75%, 11/15/05 .....
	<b>U.S. GOVERNMENT &amp;</b>		800,000	6.50%, 10/15/06 .....
	<b>AGENCY OBLIGATIONS—25.4%</b>		953,000	3.50%, 11/15/06 .....
2,000,000	Federal Farm Credit Banks, 5.87%, 9/2/08 .....	2,253,080	55,000	4.00%, 11/15/12 .....
1,260,000	Federal Home Loan Banks, 5.765%, 3/18/03 .....	1,271,894		<b>Total U.S. Government &amp; Agency Obligations</b>
2,000,000	5.25%, 2/13/04 .....	2,089,500		<b>(Cost \$61,083,253)</b> .....
100,000	3.52%, 2/25/04 .....	102,388		
1,500,000	7.25%, 5/13/05 .....	1,680,615		<b>SHORT-TERM INVESTMENTS—4.5%</b>
1,000,000	6.375%, 8/15/06 .....	1,129,260		<b>U.S. GOVERNMENT &amp; AGENCY</b>
1,000,000	6.75%, 8/15/07 .....	1,160,560		<b>OBLIGATIONS—4.4%</b>
2,000,000	Federal Home Loan Mortgage Corporation, 4.70%, 11/1/05 .....	2,022,620		Federal Home Loan Banks, 0.75%, 1/2/03 .....
1,000,000	5.65%, 4/25/06 .....	1,013,820		<b>(Cost \$11,199,767)</b> .....
1,115,000	7.10%, 4/10/07 .....	1,302,844		
800,000	5.75%, 4/15/08 .....	897,000		<b>SECURITIES HELD UNDER</b>
50,000	Federal National Mortgage Association, 7.40%, 7/1/04 .....	54,283		<b>REPURCHASE AGREEMENTS—.1%</b>
1,000,000	7.125%, 12/15/05 .....	1,105,750		Securities Held Under Repurchase
500,000	6.96%, 4/2/07 .....	578,595		Agreements, 1.10%, 1/2/03, with
2,000,000	6.08%, 2/15/10 .....	2,269,140		Bear, Stearns & Co. Inc., dtd 12/31/02,
400,000	6.75%, 2/4/28 .....	415,500		repurchase price \$254,396; collateralized
1,000,000	Student Loan Marketing Association, 5.25%, 3/15/06 .....	1,086,850		by \$630,000 U.S. Treasury Bond Strips, due 2/15/20 .....
				<u>254,380</u>
				<b>Total Short-Term Investments</b>
				<b>(Cost \$11,454,147)</b> .....
				<u>11,454,147</u>
				<b>Total Investments</b>
				<b>(Cost \$248,067,673)(a)</b> .....
				99.6% 253,647,546
				Other Assets in Excess of Liabilities .....
				.4 1,135,995
				<b>Net Assets</b> .....
				100.0% <u>\$254,783,541</u>

\* Non-income producing security.

(a) At December 31, 2002, the net unrealized depreciation on investments, based on cost for federal income tax purposes of \$255,322,148, amounted to \$1,674,602 which consisted of aggregate gross unrealized appreciation of \$8,353,388 and aggregate gross unrealized depreciation of \$10,027,990.

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**FINANCIAL HIGHLIGHTS**

*For a share outstanding throughout the period*

	Class O					Class S(ii)
	Year Ended December 31,					Eight Months Ended
	2002	2001	2000	1999	1998	December 31, 2002(i)
Net asset value, beginning of period	\$ 13.08	\$ 13.77	\$ 15.57	\$ 12.98	\$ 10.76	\$ 12.50
Net investment income	0.20	0.18	0.20	0.15	0.19	0.02
Net realized and unrealized gain (loss) on investments	(1.79)	(0.43)	(0.61)	3.45	3.02	(1.05)
Total from investment operations	(1.59)	(0.25)	(0.41)	3.60	3.21	(1.03)
Dividends from net investment income	(0.20)	(0.20)	(0.13)	(0.17)	(0.18)	—
Distributions from net realized gains	—	(0.24)	(1.26)	(0.84)	(0.81)	—
Total Distributions	(0.20)	(0.44)	(1.39)	(1.01)	(0.99)	—
Net asset value, end of period	\$ 11.29	\$ 13.08	\$ 13.77	\$ 15.57	\$ 12.98	\$ 11.47
Total Return	(12.29%)	(1.93%)	(2.76%)	29.21%	31.51%	(8.24%)
Ratios and Supplemental Data:						
Net assets, end of period (000's omitted)	\$254,290	\$224,959	\$115,894	\$56,327	\$28,208	\$ 494
Ratio of expenses to average net assets	0.87%	0.85%	0.88%	0.93%	0.92%	1.17%
Ratio of net investment income to average net assets	2.16%	2.53%	2.40%	1.66%	2.09%	1.67%
Portfolio Turnover Rate	188.76%	62.93%	63.37%	118.74%	94.64%	188.76%

(i) Ratios have been annualized; total return has not been annualized.

(ii) Initially offered May 1, 2002.

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**STATEMENT OF ASSETS AND LIABILITIES**

*December 31, 2002*

<b>Assets:</b>	
Investments in securities, at value (identified cost*)—see accompanying schedule of investments	\$253,647,546
Receivable for shares of beneficial interest sold	61,466
Interest and dividends receivable	1,830,630
Other assets	12,133
<b>Total Assets</b>	<b>255,551,775</b>
<b>Liabilities:</b>	
Payable for investment securities purchased	446,530
Payable for shares of beneficial interest redeemed	100,291
Accrued investment management fees	163,474
Accrued expenses	57,939
<b>Total Liabilities</b>	<b>768,234</b>
<b>Net Assets</b>	<b>\$254,783,541</b>
<b>Net Assets Consist of:</b>	
Paid-in capital	\$295,579,693
Undistributed net investment income (accumulated loss)	5,667,562
Undistributed net realized gain (accumulated loss)	(52,043,587)
Net unrealized appreciation (depreciation)	5,579,873
<b>Net Assets</b>	<b>\$254,783,541</b>
<b>Class O</b>	
<b>Net Asset Value Per Share</b>	<b>\$ 11.29</b>
<b>Class S</b>	
<b>Net Asset Value Per Share</b>	<b>\$ 11.47</b>
Shares of beneficial interest outstanding—Note 5	
<b>Class O</b>	<b>22,524,952</b>
<b>Class S</b>	<b>43,042</b>
*Identified cost	\$248,067,673

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**STATEMENT OF OPERATIONS**

*For the year ended December 31, 2002*

INVESTMENT INCOME

Income:	
Interest	\$ 6,656,141
Dividends	967,955
Total Income	7,624,096
Expenses:	
Management fees—Note 3(a)	1,887,444
Custodian fees	103,590
Transfer agent fees	116,780
Professional fees	18,178
Trustees' fees	3,000
Miscellaneous	54,353
Total Expenses	2,183,345
Net Investment Income	5,440,751
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	
Net realized loss on investments	(38,391,132)
Net change in unrealized appreciation (depreciation) on investments	(616,081)
Net realized and unrealized loss on investments	(39,007,213)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$(33,566,462)

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**STATEMENT OF CHANGES IN NET ASSETS**

*For the year ended December 31, 2002*

Net investment income	\$ 5,440,751
Net realized loss on investments	(38,391,132)
Net change in unrealized appreciation (depreciation) on investments	(616,081)
Net decrease in net assets resulting from operations	(33,566,462)
Dividends to shareholders—Class O:	
Net investment income	(4,212,264)
Increase from shares of beneficial interest transactions:	
Class O	67,104,186
Class S	499,543
Net increase from shares of beneficial interest transactions—Note 5	67,603,729
Total increase	29,825,003
Net Assets	
Beginning of year	224,958,538
End of year	\$254,783,541
Undistributed net investment income (accumulated loss)	\$ 5,667,562

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**STATEMENT OF CHANGES IN NET ASSETS**

*For the year ended December 31, 2001*

Net investment income	\$ 4,056,867
Net realized loss on investments	(12,740,137)
Net change in unrealized appreciation (depreciation) on investments	6,282,853
Net decrease in net assets resulting from operations	(2,400,417)
Dividends to shareholders—Class O:	
Net investment income	(2,131,825)
Net realized gains	(2,594,824)
Net increase from shares of beneficial interest transactions—Note 5	116,191,618
Total increase	109,064,552
Net Assets	
Beginning of year	115,893,986
End of year	\$224,958,538
Undistributed net investment income (accumulated loss)	\$ 4,054,635

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**NOTES TO FINANCIAL STATEMENTS**

*December 31, 2002*

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**NOTE 1—General:**

The Alger American Fund (the “Fund”) is a diversified, open-end registered investment company organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund operates as a series company currently issuing six series of shares of beneficial interest: American Growth Portfolio, American Small Capitalization Portfolio, American Income and Growth Portfolio, American Balanced Portfolio, American MidCap Growth Portfolio and American Leveraged AllCap Portfolio. These financial statements include only the American Balanced Portfolio (the “Portfolio”). The Portfolio’s investment objectives are 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 and are being marketed exclusively as a pooled funding vehicle for qualified retirement plans and for life insurance companies writing all types of variable annuity contracts and variable life insurance policies.

The Portfolio offers Class O and Class S shares. Class S shares were first offered May 1, 2002. 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:** Investments of the Portfolio are valued on each day the New York Stock Exchange (“NYSE”) is open as of the close of the NYSE (normally 4:00 p.m. Eastern time). Listed and unlisted securities for which such information is regularly reported are valued at the last reported sales price or, in the absence of reported sales, at the mean between the bid and the asked price, or, in the absence of a recent bid or asked price, the equivalent as obtained from one or more of the major market makers for the securities to be valued.

Securities for which market quotations are not readily available are valued according to procedures established by the Board of Trustees to determine fair value in good faith.

Securities having a remaining maturity of sixty days or less are valued at amortized cost which approximates market value.

(b) **Security Transactions and Investment Income:** Security transactions are recorded on a trade date basis. Resulting receivables and payables are carried at amounts which approximate fair value. 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.

Effective January 1, 2001, premiums and discounts on debt securities purchased are amortized or accreted over the lives of the respective securities. This change in accounting policy which has

been applied retroactively had no material effect on the accompanying financial statements.

(c) **Repurchase Agreements:** The Portfolio enters into repurchase agreements with approved institutions. The repurchase agreements are collateralized by U.S. Government securities, which are either received and held in physical possession by the custodian or received by such custodian in book-entry form through the Federal Reserve book-entry system. The collateral is valued on a daily basis during the term of the agreement to ensure that its value equals or exceeds the agreed-upon repurchase price to be repaid to the Portfolio. Additional collateral is obtained when necessary.

(d) **Lending of Portfolio Securities:** The Portfolio lends its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one-third of the Portfolio’s total assets, as defined. The Portfolio earns fees on the securities loaned, which are included in interest income in the accompanying Statement of Operations. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash, letters of credit or U.S. Government securities that are maintained in an amount equal to at least 100 percent of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio and any required additional collateral is delivered to the Portfolio on the next business day.

(e) **Dividends to Shareholders:** Dividends and distributions payable to shareholders are recorded by the Portfolio on the ex-dividend date. Dividends from net investment income are declared and paid annually.

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

Each class is treated separately in determining the amounts of dividends of net investment income and distributions of capital gains payable to holders of its shares.

The characterization of dividends 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 from paid-in capital, depending on the type of book/tax differences that may exist.

At December 31, 2002, the Portfolio reclassified \$384,440 from undistributed net investment income (accumulated loss) and \$19,725 from undistributed net realized gain (accumulated loss) to

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**

**December 31, 2002**

paid-in capital. Reclassifications result primarily from the difference in tax treatment of net operating losses. The reclassification had no impact on the net asset value of the Portfolio and is designed to present the Portfolio's capital accounts on a tax basis.

(f) **Federal Income Taxes:** It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income, including net realized capital gains, to its shareholders. Therefore, no federal income tax provision is required. The Portfolio is treated as a separate entity for the purpose of determining such compliance. At December 31, 2002, the net capital loss carryforward of the Portfolio, which may be used to offset future net realized gains was \$38,641,762, and expires between 2009 and 2010.

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. For the period ended December 31, 2002, the amount of deferral for the Portfolio was \$6,392,350.

(g) **Allocation Methods:** The Fund accounts separately for the assets, liabilities and operations of each Portfolio. Expenses directly attributable to each Portfolio are charged to that Portfolio's operations; expenses which are applicable to all Portfolios are allocated among them. Income, realized and unrealized gains and losses, and expenses of each Portfolio are allocated among the Portfolio's classes based on relative net assets, with the exception of distribution fees, which are only applicable to Class S shares.

(h) **Other:** These financial statements have been prepared using estimates and assumptions that affect the reported amounts therein. Actual results may differ from those estimates.

**NOTE 3—Investment Management Fees and Other Transactions with Affiliates:**

(a) **Investment Management Fees:** Fees incurred by the Portfolio, pursuant to the provisions of its Investment Management Agreement (the "Agreement") with Fred Alger Management, Inc. ("Alger Management"), are payable monthly and computed based on the average daily net assets of the Portfolio at the annual rate of .75%.

The Agreement further provides that if in any fiscal year the aggregate expenses, excluding interest, taxes, brokerage commissions, and extraordinary expenses, exceed 1.25% of the average daily net assets of the Portfolio, Alger Management will reimburse the Portfolio for the excess expenses.

(b) **Distribution Fees:** Class S shares—The Fund has adopted a Distribution Plan pursuant to which Class S shares of each Portfolio pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor"), a fee at the annual rate of .25% of the respective average daily net assets of the Class S shares of the designated Portfolios to compensate the Distributor for its activities and expenses incurred in distributing the Class S shares. The fees charged may be more or less than the expenses incurred by the Distributor.

(c) **Brokerage Commissions:** During the year ended December 31, 2002, the Portfolio paid the Distributor \$750,554 in connection with securities transactions.

(d) **Transfer Agency Fees:** The Portfolio has entered into a transfer agency agreement with Alger Shareholder Services, Inc. ("Services"), an affiliate of Alger Management, whereby Services will act as transfer agent for the Portfolio.

(e) **Other:** Certain trustees and officers of the Portfolio are directors and officers of Alger Management, the Distributor and Services.

**NOTE 4—Securities Transactions:**

Purchases and sales of securities, other than short-term securities, of the Portfolio for the year ended December 31, 2002, were \$519,597,757 and \$436,509,286, respectively.

**NOTE 5—Share Capital:**

The Fund has an unlimited number of authorized shares of beneficial interest of \$.001 par value.

During the period ended December 31, 2002, transactions of shares of beneficial interest were as follows:

	<u>Shares</u>	<u>Amount</u>
Class O:		
Shares sold . . . . .	8,764,536	\$107,315,310
Dividends reinvested . . . . .	345,834	4,212,264
Shares redeemed . . . . .	(3,788,621)	(44,423,388)
Net increase . . . . .	<u>5,321,749</u>	<u>\$ 67,104,186</u>
Class S*:		
Shares sold . . . . .	43,065	\$ 499,810
Shares redeemed . . . . .	(23)	(267)
Net increase . . . . .	<u>43,042</u>	<u>\$ 499,543</u>

\* Initially offered May 1, 2002.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**

**December 31, 2002**

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During the year ended December 31, 2001, transactions of shares of beneficial interest were as follows:

	<u>Shares</u>	<u>Amount</u>
Shares sold .....	10,427,638	\$ 137,648,938
Dividends reinvested .....	348,830	4,726,649
Shares redeemed .....	(1,990,212)	(26,183,969)
Net increase .....	<u>8,786,256</u>	<u>\$ 116,191,618</u>

**NOTE 6—Distributions to Shareholders:**

The tax character of distributions paid were as follows:

	<u>Year Ended December 31,</u>	
	<u>2002</u>	<u>2001</u>
Distributions paid from:		
Ordinary Income .....	\$ 4,212,264	\$ 2,131,825
Long-term capital gain .....	—	2,594,824
Total distributions paid .....	<u>\$ 4,212,264</u>	<u>\$ 4,726,649</u>

As of December 31, 2002 the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income .....	\$ 5,912,564
Undistributed long-term gain .....	—
Capital and other losses .....	45,034,112
Unrealized appreciation (depreciation) .....	(1,674,602)

The difference between book basis and tax-basis unrealized appreciation (depreciation) is attributable primarily to the tax deferral of losses on wash sales.



## REPORT OF INDEPENDENT AUDITORS

### To the Shareholders and Board of Trustees of The Alger American Fund:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Alger American Balanced Portfolio (one of the portfolios comprising The Alger American Fund, a Massachusetts business trust) as of December 31, 2002, and the related statement of operations, the statement of changes in net assets, and the financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The statement of changes in net assets for the year ended December 31, 2001 and the financial highlights for each of the four years then ended were audited by other auditors, whose report, dated January 24, 2002, expressed an unqualified opinion on the statement of changes in net assets and financial highlights.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2002, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above, and audited by us, present fairly, in all material respects, the financial position of the Alger American Balanced Portfolio of The Alger American Fund as of December 31, 2002, the results of its operations, the changes in its net assets, and the financial highlights for the year then ended in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

New York, New York  
January 31, 2003

**Change in the Fund's certifying accountant**

In December 2001, the Board of Trustees of the Fund selected Arthur Andersen LLP (“Andersen”) as its independent auditor for the fiscal year ended December 31, 2002. At a special meeting held on July 3, 2002, the Board of the Fund, including a majority of the Trustees who are not “interested persons” (as defined in the Investment Company Act of 1940) of the Fund, elected to terminate the appointment of Andersen in light of recent events involving that firm and selected Ernst & Young LLP as the Fund's independent auditor for the 2002 fiscal year. The decision to change accountants was approved by the Fund's Audit Committee.

Andersen's reports on the Fund's financial statements for the Fund's two most recent years prior to the year ended December 31, 2002, contained no adverse opinion or disclaimer of opinion, and neither report was qualified or modified as to uncertainty, audit scope, or accounting principles. During those years and the subsequent period preceding Andersen's dismissal, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, and there were no reportable events of the kinds listed in Item 304, paragraph (a)(1)(v), of Regulation S-K under the Securities Exchange Act of 1934.

## Trustees and Officers of the Fund

Information about the Trustees and officers of the Fund is set forth below. In the table the term “Alger Fund Complex” refers to the Fund, Spectra Fund, The Alger Fund, The Alger Institutional Fund and Castle Convertible Fund, Inc., each of which is a registered investment company managed by Fred Alger Management, Inc. (“Alger Management”). Each Trustee serves until an event of termination, such as death or resignation, or until his successor is duly elected; each officer’s term of office is one year. Unless otherwise noted, the address of each person named below is 111 Fifth Avenue, New York, NY 10003.

Name, Age, Position with the Fund and Address	Principal Occupations	Trustee and/or Officer Since	Number of Portfolios in the Alger Fund Complex which are Overseen by Trustee
<i>Interested Trustees</i>			
Fred M. Alger III (67) Chairman of the Board and President	Chairman of the Board and President of Alger Associates, Inc. (“Associates”), Fred Alger & Company, Incorporated (“Alger Inc.”), Alger Management, Alger Properties, Inc. (“Properties”), Alger Shareholder Services, Inc. (“Services”), Alger Life Insurance Agency, Inc. (“Agency”), Fred Alger International Advisory S.A. (“International”), and the five funds in the Alger Fund Complex; Chairman of the Boards of Alger SICAV (“SICAV”) and Analysts Resources, Inc. (“ARI”).	1988	22
<i>Non-Interested Trustees</i>			
Stephen E. O’Neil (70) Trustee 200 East 66th Street New York, NY 10021	Attorney; Private investor since 1981; Director of NAHC, Inc. and Brown-Forman Corporation; Trustee/Director of the five funds in the Alger Fund Complex; formerly of Counsel to the law firm of Kohler & Barnes; formerly Director of Syntro Corporation.	1988	22
Nathan E. Saint-Amand, M.D. (64) Trustee 2 East 88th Street New York, NY 10128	Medical doctor in private practice; Co-Partner Fishers Island Partners; Member of the Board of the Manhattan Institute; Trustee/Director of the five funds in the Alger Fund Complex. Formerly Co-Chairman Special Projects Committee of Memorial Sloan Kettering.	1988	22
B. Joseph White (55) Trustee 701 Tappan Street, D2253 Ann Arbor, MI 48109	President, William Davidson Institute at the University of Michigan Business School; William K. Pierpont Collegiate Professor, University of Michigan Business School; Director, Gordon Food Service; Trustee and Chair, Audit Committee, Equity Residential Properties Trust; Director and Chair, Compensation Committee, Kelly Services, Inc.; Trustee/Director of the five funds in the Alger Fund Complex.	1999	22

Name, Age, Position with the Fund and Address	Principal Occupations	Trustee and/or Officer Since	Number of Portfolios in the Alger Fund Complex which are Overseen by Trustee
<i>Officers</i>			
Gregory S. Duch (51) Treasurer	Executive Vice President, Treasurer and Director of Alger Inc., Alger Management, Properties and Associates; Executive Vice President and Treasurer of ARI, Services and Agency; Treasurer and Director of International; Treasurer of the five funds in the Alger Fund Complex. Chairman of the Board of Trust.	1989	N/A
Dorothy G. Sanders (47) Secretary	Senior Vice President, General Counsel and Secretary of Alger, Inc., General Counsel and Secretary of Associates, Agency, Properties, Services, ARI and Alger Management; Secretary of International, and the five funds in the Alger Fund Complex. Formerly Senior Vice President, Fleet Financial Group.	2000	N/A
Frederick A. Blum (48) Assistant Secretary and Assistant Treasurer	Senior Vice President of Alger Management; Assistant Treasurer and Assistant Secretary of the five funds in the Alger Fund Complex. Director, Executive Vice President and Treasurer of Trust.	1996	N/A

Mr. Alger is an “interested person” (as defined in the Investment Company Act) of the Fund because of his affiliations with Alger Management and Alger Inc., the Fund’s principal underwriter. No Trustee is a director of any public company except as may be indicated under “Principal Occupations.” Effective February 4, 2003, Mr. White resigned from the Board of the Fund.

The Statement of Additional Information contains additional information about the Fund’s Trustees and is available without charge upon request by calling (800) 992-3863.

# **The Alger American Fund**

**Alger American  
Leveraged AllCap Portfolio**

## **Annual Report**

**December 31, 2002**



# Dear Shareholders,

January 24, 2003

The year ended December 31, 2002 had a Jekyll-and-Hyde character. The economy gradually recovered from the recession of 2001; that was the good side. The markets, however, stumbled badly. For the year, the economy grew an estimated 2.5%. However, the Dow Jones Industrial Average was down 15%, the S&P 500 lost 22%, and the Nasdaq was down 31%. It was the third year in a row that the Dow posted negative returns, which hadn't happened since 1939-1941. Perhaps the only reassuring aspect of these statistics is that only once in its history has the Dow posted four down years in a row, and that makes it highly unlikely that 2003 will repeat the pattern of 2000-2002.

Obviously, given the results of the major indices, the bulk of equity mutual funds had negative returns. Growth funds, which typically lead the market during an up period, were especially hard hit. Corporate America, and to a lesser degree corporations internationally, pared back their capital expenditures on technology. After substantial spending in the late 1990s, companies focused on making the most productive use of their information technologies. While this is a normal part of an innovation cycle, in the short-term it can look like contraction. In fact, companies are becoming increasingly efficient because they are only now making productive use of the new technologies acquired in the late 1990s and into 2000. But rather than spending more, companies drew down their inventories, cleaned up their balance sheets, pared back their labor force, and improved operating margins. Productivity remains extremely high and consumer spending, which now accounts for more than two-thirds of GDP, remained at healthy levels. Unemployment rose to 6.0% and much of the job loss was in the manufacturing, finance and travel industries; the manufacturing job loss in particular is part of a multi-year shift in the U.S. economy away from manufacturing and toward services.

Looking at the year in perspective, it should be clear that the economic situation should have been worse. The United States was caught in a "perfect storm:" a combination of the severe equity decline, the consolidation and commoditization of the tech industry, the political and economic aftershocks of 9/11, and, finally, the crisis of investor confidence in the wake of Wall Street scandals that began with Enron and then expanded to include not only other companies such as WorldCom, but Wall Street research and investment practices as well. Yet this perfect storm did not derail the economy. For sure, it has hurt economic growth and several sectors have suffered. The past few years have been painful, but the economy has weathered a remarkable series of shocks. Perfect storms are rare and we doubt that the future will pose challenges as grave as the ones that have already confronted us, even with the continued threat of international terrorism and rogue states.

The Alger American Leveraged AllCap Portfolio declined 33.91% during 2002, while the Russell 3000 Growth Index fell 28.05%. Despite the market's strong start to the fourth quarter, the portfolio declined 2.80% during that three-month period. Losses were widespread, with those from information technology stocks — which made up approximately 20% of the portfolio on average during the year — weighing most heavily on returns. For the year as a whole, gains were limited, with slight upticks in leisure equipment and products, and information technology consulting and services, for example. Over the course of the year, health care was the largest component of the portfolio, with an average weighting of approximately 30%. Going forward, we continue to weight our holdings toward health care, information technology, and other stocks we believe offer long-term growth potential. We think that a combination of improving financial conditions in 2003 and our research-driven stock selection process should benefit the portfolio's performance for the year.

## Looking Ahead

The economy appears to be in a period of slow, sustainable economic growth. International uncertainties, investor wariness, and high energy prices are concerns, but even factoring those in, we anticipate that the overall economy will show slightly better growth for 2003 than for 2002, and will eventually fall in the range of 2.5% to 3.0%. In a period of very low inflation, we believe that is respectable. As companies continue to pay down debt, improve their corporate governance and clean up their balance sheets, they will be in a position once again to increase their capital spending, and when they do so, they will supply the missing ingredient that has kept growth modest rather than robust. The federal government has been doing its part to keep the economy moving, with an unusual cocktail of spending, low interest rates, and tax cuts. The equity markets, which after all are a reflection of the economy, have come down to much more reasonable levels. Valuations now look attractive, especially given that the economy is growing and poised, we believe, for even faster growth. We will continue to search for the most efficient, most dynamic, and most innovative companies that can deliver consistent earnings growth and therefore superior returns to our investors.

Respectfully submitted,



Dan C. Chung  
Chief Investment Officer

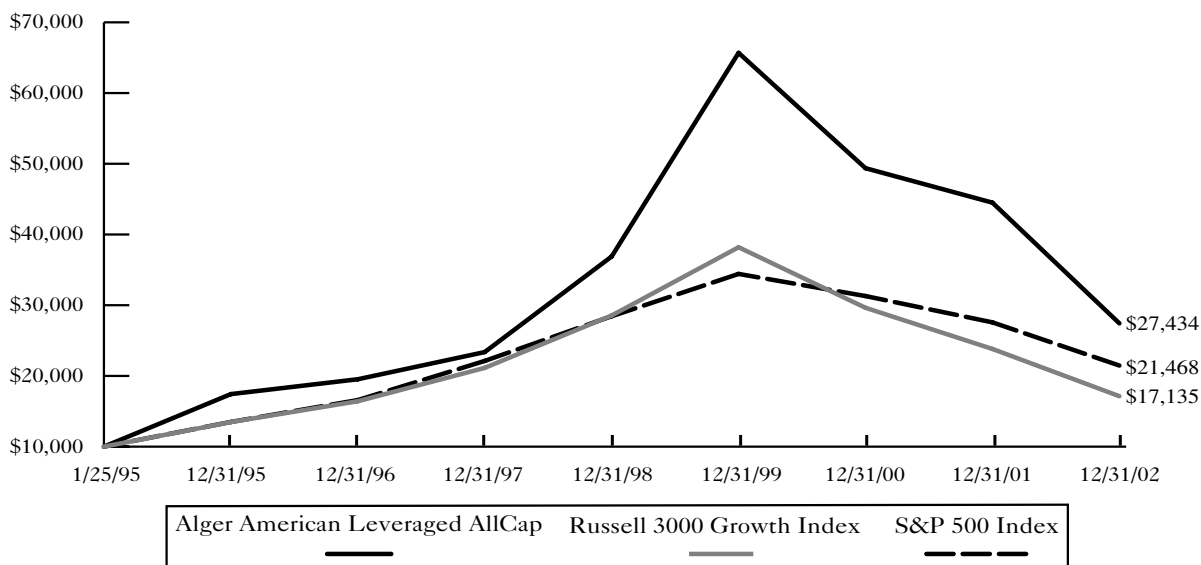
## TABLE OF CONTENTS

Portfolio Highlights .....	3
Schedule of Investments .....	4
Financial Highlights .....	6
Statement of Assets and Liabilities .....	7
Statement of Operations .....	8
Statements of Changes in Net Assets .....	9
Notes to Financial Statements .....	10
Report of Independent Auditors .....	13

## ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO

*Portfolio Highlights Through December 31, 2002 (Unaudited)*

### HYPOTHETICAL \$10,000 INVESTMENT FROM JANUARY 25, 1995 TO DECEMBER 31, 2002



The chart above illustrates the growth in value of a hypothetical \$10,000 investment made in Alger American Leveraged AllCap Class O shares, Russell 3000 Growth Index and the S&P 500 Index on January 25, 1995, the inception date of the Alger American Leveraged AllCap Portfolio, through December 31, 2002. Figures for the Alger American Leveraged AllCap Class O shares, Russell 3000 Growth Index (an unmanaged index of common stocks), and the S&P 500 Index (an unmanaged index of common stocks), include reinvestment of dividends. Performance for Alger American Leveraged AllCap Class S shares will vary from the results shown above due to differences in expenses that class bears. The Portfolio has changed its comparative index to the Russell 3000 Growth Index. Fund management believes this index more closely represents the stocks in which the Portfolio normally invests.

### PERFORMANCE COMPARISON THROUGH December 31, 2002

	Average Annual Total Returns		
	1 Year	5 Years	Since Inception
Class O (Inception 1/25/95)	(33.91%)	3.26%	13.56%
Russell 3000 Growth Index	(28.05%)	(4.11%)	7.02%
S&P 500 Index	(22.10%)	(0.58%)	10.10%
Class S (Inception 5/1/02)	*	*	(26.81%)
Russell 3000 Growth Index	*	*	(19.96%)
S&P 500 Index	*	*	(17.30%)

*Performance figures do not reflect deduction of insurance charges against assets or annuities. If these charges were deducted, the total return figures would be lower. Past performance does not guarantee future results.*



**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**SCHEDULE OF INVESTMENTS—DECEMBER 31, 2002**

<u>Shares</u>	<b>COMMON STOCKS—94.7%</b>	<u>Value</u>	<u>Shares</u>	<u>Value</u>
	<b>AEROSPACE &amp; DEFENSE—1.2%</b>			<b>INSURANCE—2.9%</b>
52,900	Alliant Techsystems Inc.*	\$ 3,298,315	92,000	AFLAC Incorporated
			38,200	American International Group, Inc.
	<b>BEVERAGES—1.0%</b>		103,400	Willis Group Holdings Limited*
60,600	Coca-Cola Company	2,655,492		<u>7,945,388</u>
				<b>INTERNET SOFTWARE &amp; SERVICES—.5%</b>
	<b>BIOTECHNOLOGY—8.5%</b>		85,000	Yahoo! Inc.*
206,400	Amgen Inc.*	9,977,376		<u>1,389,750</u>
170,000	Biogen, Inc.*	6,810,200		<b>INTERNET &amp; CATALOG RETAIL—3.2%</b>
184,500	Gilead Sciences, Inc.*	6,273,000	127,950	eBay Inc.*
		<u>23,060,576</u>		<u>8,677,569</u>
				<b>MEDIA—2.3%</b>
	<b>COMMERCIAL SERVICES &amp; SUPPLIES—2.6%</b>		80,400	Tribune Company
61,850	Apollo Group, Inc. Cl. A*	2,721,400	64,300	Viacom Inc. Cl. B*
111,500	Career Education Corporation*	4,460,000		<u>3,654,984</u>
		<u>7,181,400</u>		<u>2,620,868</u>
				<u>6,275,852</u>
	<b>COMMUNICATION EQUIPMENT—3.1%</b>			<b>MULTILINE RETAIL—3.3%</b>
494,800	CIENA Corporation*	2,543,272	203,650	Dollar Tree Stores, Inc.*
312,300	Cisco Systems, Inc.*	4,091,130	76,700	Wal-Mart Stores, Inc.
280,000	Juniper Networks, Inc.*	1,904,000		<u>5,003,681</u>
		<u>8,538,402</u>		<u>3,874,117</u>
				<u>8,877,798</u>
	<b>COMPUTERS &amp; PERIPHERALS—.9%</b>		93,500	<b>PHARMACEUTICALS—15.8%</b>
401,000	EMC Corporation*	2,462,140	101,300	Forest Laboratories, Inc.*
			147,000	Johnson & Johnson
	<b>DIVERSIFIED FINANCIALS—5.1%</b>		172,800	Merck & Co., Inc.
245,200	Citigroup Inc.	8,628,588	111,600	Pharmacia Corporation
67,600	Merrill Lynch & Co., Inc.	2,565,420	224,200	Teva Pharmaceutical Industries Ltd. ADR
26,800	SLM Corporation	2,783,448		Wyeth
		<u>13,977,456</u>		<u>42,863,059</u>
				<b>SEMICONDUCTOR EQUIPMENT</b>
	<b>ENERGY EQUIPMENT &amp; SERVICES—1.4%</b>		339,895	<b>&amp; PRODUCTS—9.1%</b>
23,690	Cooper Cameron Corporation*	1,180,236	145,100	Intersil Corporation Cl. A*
137,600	Halliburton Company	2,574,496	129,100	KLA-Tencor Corporation*
		<u>3,754,732</u>	226,700	Marvell Technology Group Ltd.*
			329,800	Maxim Integrated Products, Inc.
	<b>HEALTH CARE EQUIPMENT &amp; SUPPLIES—7.7%</b>			National Semiconductor Corporation*
87,900	Alcon, Inc.*	3,467,655		<u>4,950,298</u>
161,795	Boston Scientific Corporation*	6,879,523		<u>24,745,615</u>
55,920	St. Jude Medical, Inc.*	2,221,142		<b>SOFTWARE—7.8%</b>
46,700	Varian Medical Systems, Inc.*	2,316,320	86,200	Intuit Inc.*
142,700	Zimmer Holdings, Inc.*	5,924,904	169,400	Microsoft Corporation*
		<u>20,809,544</u>	769,500	Oracle Corporation*
				<u>21,113,084</u>
	<b>HEALTH CARE PROVIDERS &amp; SERVICES—6.6%</b>			<b>SPECIALTY RETAIL—6.0%</b>
108,100	AmerisourceBergen Corporation	5,870,911	252,100	Abercrombie & Fitch Co. Cl. A*
101,700	Anthem, Inc.*	6,396,930	80,800	Bed Bath & Beyond Inc.*
68,995	HCA Inc.	2,863,293	110,600	Best Buy Co., Inc.*
34,300	UnitedHealth Group Incorporated	2,864,050	187,700	Gap, Inc.
		<u>17,995,184</u>	71,000	Lowe's Companies, Inc.
	<b>HOTELS, RESTAURANTS &amp; LEISURE—1.9%</b>			<u>2,662,500</u>
68,300	International Game Technology*	5,185,336		<u>16,194,584</u>
	<b>INFORMATION TECHNOLOGY</b>			
	<b>CONSULTING &amp; SERVICES—2.7%</b>			
138,670	Affiliated Computer Services, Inc. Cl. A*	7,300,976		

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**SCHEDULE OF INVESTMENTS—DECEMBER 31, 2002 (Cont'd)**

<u>Shares</u>	<b>COMMON STOCKS (Cont'd)</b>	<u>Value</u>	<u>Principal Amount</u>	<b>SHORT-TERM INVESTMENTS—6.8%</b>	<u>Value</u>
	<b>WIRELESS TELECOMMUNICATION SERVICES—1.1%</b>			<b>U.S. GOVERNMENT &amp; AGENCY OBLIGATIONS—6.7%</b>	
156,800	Vodafone Group PLC Sponsored ADR . . . . .	\$ 2,841,216	\$18,400,000	Federal Home Loan Banks, 0.75%, 1/2/03 (Cost \$18,399,616) . . . . .	\$ 18,399,616
	<b>Total Common Stocks (Cost \$268,457,817) . . . . .</b>	<u>257,143,468</u>		<b>SECURITIES HELD UNDER REPURCHASE AGREEMENTS—.1%</b>	
				Securities Held Under Repurchase Agreements, 1.10%, 1/2/03, with Bear, Stearns & Co. Inc., dtd 12/31/02, repurchase price \$213,708; collateralized by \$530,000 U.S. Treasury Bond Strips, due 2/15/20 . . . . .	<u>213,695</u>
				<b>Total Short-Term Investments (Cost \$18,613,311)(a) . . . . .</b>	<u>18,613,311</u>
			<b>Total Investments (Cost \$287,071,128) . . . . .</b>	101.5%	275,756,779
			Liabilities in Excess of Other Assets . . . . .	(1.5)	<u>(4,103,017)</u>
			<b>Net Assets . . . . .</b>	<u>100.0%</u>	<u>\$271,653,762</u>

\* Non-income producing security.

(a) At December 31, 2002, the net unrealized depreciation on investments, based on cost for federal income tax purposes of \$288,841,302, amounted to \$13,084,523 which consisted of aggregate gross unrealized appreciation of \$9,765,687 and aggregate gross unrealized depreciation of \$22,850,210.

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**FINANCIAL HIGHLIGHTS**

*For a share outstanding throughout the period*

	Class 0					Class S(iii)
	Year Ended December 31,					Eight Months Ended
	2002	2001	2000	1999	1998	December 31, 2002(i)
Net asset value, beginning of period	\$ 31.55	\$ 38.80	\$ 57.97	\$ 34.90	\$ 23.17	\$28.46
Net investment income (loss)	(0.14)	0.00(ii)	(0.02)(ii)	(0.09)	(0.05)	(0.02)
Net realized and unrealized gain (loss) on investments	(10.56)	(6.06)	(13.77)	25.93	12.99	(7.61)
Total from investment operations	(10.70)	(6.06)	(13.79)	25.84	12.94	(7.63)
Distributions from net realized gains	—	(1.19)	(5.38)	(2.77)	(1.21)	—
Net asset value, end of period	\$ 20.85	\$ 31.55	\$ 38.80	\$ 57.97	\$ 34.90	\$20.83
Total Return	(33.91%)	(15.93%)	(24.83%)	78.06%	57.83%	(26.81%)
Ratios and Supplemental Data:						
Net assets, end of period (000's omitted)	\$271,373	\$443,209	\$476,517	\$362,500	\$101,710	\$ 281
Ratio of expenses to average net assets	0.96%	0.92%	0.90%	0.92%	0.93%	1.32%
Ratio of net investment income (loss) to average net assets	(0.49%)	0.00%	(0.03%)	(0.49%)	(0.27%)	(0.92%)
Portfolio Turnover Rate	203.05%	103.03%	132.28%	155.74%	143.59%	203.05%

(i) Ratios have been annualized; total return has not been annualized.

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

(iii) Initially offered May 1, 2002.

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**STATEMENT OF ASSETS AND LIABILITIES**

*December 31, 2002*

<b>Assets:</b>	
Investments in securities, at value (identified cost*)—see accompanying schedule of investments	\$ 275,756,779
Receivable for investment securities sold	831,602
Receivable for shares of beneficial interest sold	346,885
Interest and dividends receivable	60,335
Other assets	15,694
<b>Total Assets</b>	<b>277,011,295</b>
<b>Liabilities:</b>	
Payable for investment securities purchased	5,021,926
Payable for shares of beneficial interest redeemed	59,468
Accrued investment management fees	202,427
Accrued expenses	73,712
<b>Total Liabilities</b>	<b>5,357,533</b>
<b>Net Assets</b>	<b>\$ 271,653,762</b>
<b>Net Assets Consist of:</b>	
Paid-in capital	\$ 563,435,691
Undistributed net investment income (accumulated loss)	—
Undistributed net realized gain (accumulated loss)	(280,467,580)
Net unrealized appreciation (depreciation)	(11,314,349)
<b>Net Assets</b>	<b>\$ 271,653,762</b>
<b>Class O</b>	
<b>Net Asset Value Per Share</b>	<b>\$ 20.85</b>
<b>Class S</b>	
<b>Net Asset Value Per Share</b>	<b>\$ 20.83</b>
Shares of beneficial interest outstanding—Note 6	
<b>Class O</b>	<b>13,012,839</b>
<b>Class S</b>	<b>13,466</b>
*Identified cost	<b>\$ 287,071,128</b>

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**STATEMENT OF OPERATIONS**

*For the year ended December 31, 2002*

INVESTMENT INCOME

Income:		
Interest		\$ 526,058
Dividends		1,138,355
Total Income		1,664,413
Expenses:		
Management fees—Note 3(a)		2,988,448
Custodian fees		114,796
Transfer agent fees		146,968
Professional fees		18,011
Trustees' fees		3,000
Miscellaneous		104,422
Total Expenses		3,375,645
Net Investment Loss		(1,711,232)
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized loss on investments		(112,551,348)
Net change in unrealized appreciation (depreciation) on investments		(34,471,626)
Net realized and unrealized loss on investments		(147,022,974)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS		\$(148,734,206)

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**STATEMENT OF CHANGES IN NET ASSETS**

*For the year ended December 31, 2002*

Net investment loss	\$ (1,711,232)
Net realized loss on investments	(112,551,348)
Net change in unrealized appreciation (depreciation) on investments	(34,471,626)
Net decrease in net assets resulting from operations	(148,734,206)
Dividends to shareholders—Class O:	
Net investment income	(28,241)
Increase (decrease) from shares of beneficial interest transactions:	
Class O	(23,086,500)
Class S	293,689
Net decrease from shares of beneficial interest transactions—Note 6	(22,792,811)
Total decrease	(171,555,258)
Net Assets	
Beginning of year	443,209,020
End of year	\$ 271,653,762
Undistributed net investment income (accumulated loss)	\$ —

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**STATEMENT OF CHANGES IN NET ASSETS**

*For the year ended December 31, 2001*

Net investment income	\$ 18,855
Net realized loss on investments	(141,288,267)
Net change in unrealized appreciation (depreciation) on investments	58,822,151
Net decrease in net assets resulting from operations	(82,447,261)
Dividends to shareholders—Class O:	
Net realized gains	(15,500,392)
Net increase from shares of beneficial interest transactions—Note 6	64,639,587
Total decrease	(33,308,066)
Net Assets	
Beginning of year	476,517,086
End of year	\$ 443,209,020
Undistributed net investment income (accumulated loss)	\$ 18,855

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**NOTES TO FINANCIAL STATEMENTS**

*December 31, 2002*

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**NOTE 1—General:**

The Alger American Fund (the “Fund”) is a diversified, open-end registered investment company organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund operates as a series company currently issuing six series of shares of beneficial interest: American Growth Portfolio, American Small Capitalization Portfolio, American Income and Growth Portfolio, American Balanced Portfolio, American MidCap Growth Portfolio and American Leveraged AllCap Portfolio. These financial statements include only the American Leveraged AllCap 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 and are being marketed exclusively as a pooled funding vehicle for qualified retirement plans and for life insurance companies writing all types of variable annuity contracts and variable life insurance policies.

The Portfolio offers Class O and Class S shares. Class S shares were first offered May 1, 2002. 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:** Investments of the Portfolio are valued on each day the New York Stock Exchange (“NYSE”) is open as of the close of the NYSE (normally 4:00 p.m. Eastern time). Listed and unlisted securities for which such information is regularly reported are valued at the last reported sales price or, in the absence of reported sales, at the mean between the bid and the asked price, or, in the absence of a recent bid or asked price, the equivalent as obtained from one or more of the major market makers for the securities to be valued.

Securities for which market quotations are not readily available are valued according to procedures established by the Board of Trustees to determine fair value in good faith.

Securities having a remaining maturity of sixty days or less are valued at amortized cost which approximates market value.

(b) **Security Transactions and Investment Income:** Security transactions are recorded on a trade date basis. Resulting receivables and payables are carried at amounts which approximate fair value. 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.

(c) **Repurchase Agreements:** The Portfolio enters into repurchase agreements with approved institutions. The repurchase agreements are collateralized by U.S. Government securities, which are either received and held in physical possession by the custodian or received by such custodian in book-entry form through the Federal Reserve book-entry system. The collateral is valued on a daily basis during the term of the agreement to ensure that its value equals or exceeds the agreed-upon repurchase price to be repaid to the Portfolio. Additional collateral is obtained when necessary.

(d) **Lending of Portfolio Securities:** The Portfolio lends its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one-third of the Portfolio’s total assets, as defined. The Portfolio earns fees on the securities loaned, which are included in interest income in the accompanying Statement of Operations. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash, letters of credit or U.S. Government securities that are maintained in an amount equal to at least 100 percent of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio and any required additional collateral is delivered to the Portfolio on the next business day.

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

Dividends from net investment income are declared and paid annually.

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

Each class is treated separately in determining the amounts of dividends of net investment income and distributions of capital gains payable to holders of its shares.

The characterization of dividends 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 from paid-in capital, depending on the type of book/tax differences that may exist.

At December 31, 2002, the Portfolio reclassified \$1,720,618 from undistributed net investment income (accumulated loss) and \$12,326 from undistributed net realized gain (accumulated loss) to paid-in capital. Reclassifications result primarily from the difference in tax treatment of net operating losses. The reclassification had no

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**

**December 31, 2002**

impact on the net asset value of the Portfolio and is designed to present the Portfolio's capital accounts on a tax basis.

(f) **Federal Income Taxes:** It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of the taxable income, including net realized capital gains, to its shareholders. Therefore, no federal income tax provision is required. The Portfolio is treated as a separate entity for the purpose of determining such compliance. At December 31, 2002, the net capital loss carryforward of the Portfolio, which may be used to offset future net realized gains was \$263,951,002 and expires between 2009 and 2010.

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. For the period ended December 31, 2002, the amount of deferral for the Portfolio was \$14,746,404.

(g) **Allocation Methods:** The Fund accounts separately for the assets, liabilities and operations of each Portfolio. Expenses directly attributable to each Portfolio are charged to that Portfolio's operations; expenses which are applicable to all Portfolios are allocated among them. Income, realized and unrealized gains and losses, and expenses of each Portfolio are allocated among the Portfolio's classes based on relative net assets, with the exception of distribution fees, which are only applicable to Class S shares.

(h) **Other:** These financial statements have been prepared using estimates and assumptions that affect the reported amounts therein. Actual results may differ from those estimates.

**NOTE 3—Investment Management Fees and Other Transactions with Affiliates:**

(a) **Investment Management Fees:** Fees incurred by the Portfolio, pursuant to the provisions of its Investment Management Agreement (the "Agreement") with Fred Alger Management, Inc. ("Alger Management"), are payable monthly and computed based on the average daily net assets of the Portfolio at the annual rate of .85%.

The Agreement further provides that if in any fiscal year the aggregate expenses, excluding interest, taxes, brokerage commissions, and extraordinary expenses, exceed 1.50% of the average daily net assets of the Portfolio, Alger Management will reimburse the Portfolio for the excess expenses.

(b) **Distribution Fees:** Class S shares—The Fund has adopted a Distribution Plan pursuant to which Class S shares of each Portfolio pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor"), a fee at the annual rate of .25% of the respective average daily net assets of the Class S shares of the designated Portfolios

to compensate the Distributor for its activities and expenses incurred in distributing the Class S shares. The fees charged may be more or less than the expenses incurred by the Distributor.

(c) **Brokerage Commissions:** During the year ended December 31, 2002, the Portfolio paid the Distributor \$1,404,989 in connection with securities transactions.

(d) **Transfer Agency Fees:** The Portfolio has entered into a transfer agency agreement with Alger Shareholder Services, Inc. ("Services"), an affiliate of Alger Management, whereby Services will act as transfer agent for the Portfolio.

(e) **Other:** Certain trustees and officers of the Portfolio are directors and officers of Alger Management, the Distributor and Services.

**NOTE 4—Securities Transactions:**

Purchases and sales of securities, other than short-term securities, of the Portfolio for the year ended December 31, 2002, were \$656,834,847 and \$661,101,444, respectively.

**NOTE 5—Line of Credit:**

The Portfolio has a line of credit with its custodian bank whereby it may borrow up to one-third of the value of its assets, as defined, up to a maximum of \$25,000,000. Such borrowings have a variable interest rate and are payable on demand. To the extent the Portfolio borrows under this line, it must pledge securities with a total value of at least twice the amount borrowed. This line of credit was not utilized during the year ended December 31, 2002.

**NOTE 6—Share Capital:**

The Fund has an unlimited number of authorized shares of beneficial interest of \$.001 par value.

During the period ended December 31, 2002, transactions of shares of beneficial interest were as follows:

	<u>Shares</u>	<u>Amount</u>
Class O:		
Shares sold . . . . .	4,441,227	\$ 118,686,176
Dividends reinvested . . . . .	1,029	28,241
Shares redeemed . . . . .	(5,478,468)	(141,800,917)
Net decrease . . . . .	<u>(1,036,212)</u>	<u>\$ (23,086,500)</u>
Class S*:		
Shares sold . . . . .	14,226	\$ 309,589
Shares redeemed . . . . .	(760)	(15,900)
Net increase . . . . .	<u>13,466</u>	<u>\$ 293,689</u>

\* Initially offered May 1, 2002.



**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd)**

**December 31, 2002**

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During the year ended December 31, 2001, transactions of shares of beneficial interest were as follows:

	<u>Shares</u>	<u>Amount</u>
Shares sold .....	7,085,585	\$ 233,714,872
Dividends reinvested .....	442,363	15,500,392
Shares redeemed .....	(5,759,670)	(184,575,677)
Net increase .....	<u>1,768,278</u>	<u>\$ 64,639,587</u>

**NOTE 7—Distributions to Shareholders:**

The tax character of distributions paid were as follows:

	<u>Year Ended December 31,</u>	
	<u>2002</u>	<u>2001</u>
Distributions paid from:		
Ordinary Income .....	\$ 28,241	\$ —
Long-term capital gain .....	—	15,500,392
Total distributions paid .....	<u>\$ 28,241</u>	<u>\$ 15,500,392</u>

As of December 31, 2002 the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income .....	—
Undistributed long-term gain .....	—
Capital and other losses .....	\$278,697,406
Unrealized appreciation (depreciation) .....	(13,084,523)

The difference between book basis and tax-basis unrealized appreciation (depreciation) is attributable primarily to the tax deferral of losses on wash sales.

## REPORT OF INDEPENDENT AUDITORS

### To the Shareholders and Board of Trustees of The Alger American Fund:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Alger American Leveraged AllCap Portfolio (one of the portfolios comprising The Alger American Fund, a Massachusetts business trust) as of December 31, 2002, and the related statement of operations, the statement of changes in net assets, and the financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The statements of changes in net assets for the year ended December 31, 2001 and the financial highlights for each of the four years then ended were audited by other auditors, whose report, dated January 24, 2002, expressed an unqualified opinion on those statements of changes in net assets and financial highlights.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2002, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above, and audited by us, present fairly, in all material respects, the financial position of the Alger American Leveraged AllCap Portfolio of The Alger American Fund as of December 31, 2002, the results of its operations, the changes in its net assets, and the financial highlights for the year then ended in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

New York, New York  
January 31, 2003

**Change in the Fund's certifying accountant**

In December 2001, the Board of Trustees of the Fund selected Arthur Andersen LLP ("Andersen") as its independent auditor for the fiscal year ended December 31, 2002. At a special meeting held on July 3, 2002, the Board of the Fund, including a majority of the Trustees who are not "interested persons" (as defined in the Investment Company Act of 1940) of the Fund, elected to terminate the appointment of Andersen in light of recent events involving that firm and selected Ernst & Young LLP as the Fund's independent auditor for the 2002 fiscal year. The decision to change accountants was approved by the Fund's Audit Committee.

Andersen's reports on the Fund's financial statements for the Fund's two most recent years prior to the year ended December 31, 2002, contained no adverse opinion or disclaimer of opinion, and neither report was qualified or modified as to uncertainty, audit scope, or accounting principles. During those years and the subsequent period preceding Andersen's dismissal, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, and there were no reportable events of the kinds listed in Item 304, paragraph (a)(1)(v), of Regulation S-K under the Securities Exchange Act of 1934.

## Trustees and Officers of the Fund

Information about the Trustees and officers of the Fund is set forth below. In the table the term “Alger Fund Complex” refers to the Fund, Spectra Fund, The Alger Fund, The Alger Institutional Fund and Castle Convertible Fund, Inc., each of which is a registered investment company managed by Fred Alger Management, Inc. (“Alger Management”). Each Trustee serves until an event of termination, such as death or resignation, or until his successor is duly elected; each officer’s term of office is one year. Unless otherwise noted, the address of each person named below is 111 Fifth Avenue, New York, NY 10003.

Name, Age, Position with the Fund and Address	Principal Occupations	Trustee and/or Officer Since	Number of Portfolios in the Alger Fund Complex which are Overseen by Trustee
<i>Interested Trustees</i>			
Fred M. Alger III (67) Chairman of the Board and President	Chairman of the Board and President of Alger Associates, Inc. (“Associates”), Fred Alger & Company, Incorporated (“Alger Inc.”), Alger Management, Alger Properties, Inc. (“Properties”), Alger Shareholder Services, Inc. (“Services”), Alger Life Insurance Agency, Inc. (“Agency”), Fred Alger International Advisory S.A. (“International”), and the five funds in the Alger Fund Complex; Chairman of the Boards of Alger SICAV (“SICAV”) and Analysts Resources, Inc. (“ARI”).	1988	22
<i>Non-Interested Trustees</i>			
Stephen E. O’Neil (70) Trustee 200 East 66th Street New York, NY 10021	Attorney; Private investor since 1981; Director of NAHC, Inc. and Brown-Forman Corporation; Trustee/Director of the five funds in the Alger Fund Complex; formerly of Counsel to the law firm of Kohler & Barnes; formerly Director of Syntro Corporation.	1988	22
Nathan E. Saint-Amand, M.D. (64) Trustee 2 East 88th Street New York, NY 10128	Medical doctor in private practice; Co-Partner Fishers Island Partners; Member of the Board of the Manhattan Institute; Trustee/Director of the five funds in the Alger Fund Complex. Formerly Co-Chairman Special Projects Committee of Memorial Sloan Kettering.	1988	22
B. Joseph White (55) Trustee 701 Tappan Street, D2253 Ann Arbor, MI 48109	President, William Davidson Institute at the University of Michigan Business School; William K. Pierpont Collegiate Professor, University of Michigan Business School; Director, Gordon Food Service; Trustee and Chair, Audit Committee, Equity Residential Properties Trust; Director and Chair, Compensation Committee, Kelly Services, Inc.; Trustee/Director of the five funds in the Alger Fund Complex.	1999	22

Name, Age, Position with the Fund and Address	Principal Occupations	Trustee and/or Officer Since	Number of Portfolios in the Alger Fund Complex which are Overseen by Trustee
<i>Officers</i>			
Gregory S. Duch (51) Treasurer	Executive Vice President, Treasurer and Director of Alger Inc., Alger Management, Properties and Associates; Executive Vice President and Treasurer of ARI, Services and Agency; Treasurer and Director of International; Treasurer of the five funds in the Alger Fund Complex. Chairman of the Board of Trust.	1989	N/A
Dorothy G. Sanders (47) Secretary	Senior Vice President, General Counsel and Secretary of Alger, Inc., General Counsel and Secretary of Associates, Agency, Properties, Services, ARI and Alger Management; Secretary of International, and the five funds in the Alger Fund Complex. Formerly Senior Vice President, Fleet Financial Group.	2000	N/A
Frederick A. Blum (48) Assistant Secretary and Assistant Treasurer	Senior Vice President of Alger Management; Assistant Treasurer and Assistant Secretary of the five funds in the Alger Fund Complex. Director, Executive Vice President and Treasurer of Trust.	1996	N/A

Mr. Alger is an “interested person” (as defined in the Investment Company Act) of the Fund because of his affiliations with Alger Management and Alger Inc., the Fund’s principal underwriter. No Trustee is a director of any public company except as may be indicated under “Principal Occupations.” Effective February 4, 2003, Mr. White resigned from the Board of the Fund.

The Statement of Additional Information contains additional information about the Fund’s Trustees and is available without charge upon request by calling (800) 992-3863.

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# **CREDIT SUISSE FUNDS**

## Annual Report

December 31, 2002

### **CREDIT SUISSE TRUST ■ EMERGING MARKETS PORTFOLIO**

Credit Suisse Trust (the "Trust") shares are not available directly to individual investors, but may be offered only through certain insurance products and pension and retirement plans.

More complete information about the Trust, including charges and expenses, is provided in the *Prospectus*, which must precede or accompany this document and which should be read carefully before investing. You may obtain additional copies by calling 800-222-8977 or by writing to Credit Suisse Trust, P.O. Box 55030, Boston, MA 02205-5030.

Credit Suisse Asset Management Securities, Inc., Distributor, is located at 466 Lexington Ave., New York, NY 10017-3140. The Trust is advised by Credit Suisse Asset Management, LLC.

*The Portfolio's investment adviser and co-administrators may waive some fees and/or reimburse some expenses, without which performance would be lower. Waivers and/or reimbursements are subject to change.*

*Returns include change in share price and reinvestment of dividends and capital gains. **Past performance cannot guarantee future results.** Returns and share price will fluctuate, and redemption value may be more or less than original cost.*

*The views of the Portfolio's management are as of the date of the letter and the portfolio holdings described in this document are as of December 31, 2002; these views and portfolio holdings may have changed subsequent to these dates. Nothing in this document is a recommendation to purchase or sell securities.*

*Portfolio shares are not deposits or other obligations of Credit Suisse Asset Management, LLC ("CSAM") or any affiliate, are not FDIC-insured and are not guaranteed by CSAM or any affiliate.*



January 21, 2003

Dear Shareholder:

For the 12 months ended December 31, 2002, Credit Suisse Trust — Emerging Markets Portfolio<sup>1</sup> (the "Portfolio") had a loss of 11.56%, versus a decline of 6.00% for the Morgan Stanley Capital International Emerging Markets Free Index.<sup>2</sup>

The period was a very difficult one for most of the world's equity markets, hurt by uncertainty regarding the U.S. economy. While growth was surprisingly robust early in the period, the flow of data suggested a softer recovery going forward and even a potential return to recession. The outlook for profits dimmed accordingly. In addition, a rash of accounting irregularities were uncovered within U.S. corporations, causing a deterioration in investor confidence.

Emerging stock markets collectively declined, yet they outperformed their developed world counterparts. This was due in part to cheaper valuations in emerging markets — a sign to us that more pessimism had already been factored into their equity prices at the start of the period. In addition, investors seemed to view emerging markets as less likely to suffer from U.S.-type corporate accounting problems.

There were, of course, some region-specific factors that influenced the group's performance. Perhaps most visible was the political environment in Brazil. Early in 2002, investors began to discount the possibility that the left-leaning candidate, Lula da Silva, could win the Presidential elections slated for October. The implications for Brazil's free-market reforms and its ability and desire to meet its burdensome debt payments rattled investors. In the end, Lula won the election, but with a system of checks and balances seemingly in place. This, along with Lula's market-friendly comments late in the period and his appointment of some centrists to his cabinet helped Brazil (and emerging markets broadly) to end the year with a positive fourth quarter.

Against this backdrop, the Portfolio underperformed its benchmark. Factors we attribute this to include our exposure to Brazil. We were overweighted in that market early in 2002, when it fell sharply. We became more defensive toward the country and accordingly lowered our weighting. This hindered the Portfolio's relative return in the fourth quarter, however, when Brazil's equity market and currency rose sharply (Brazil's market ended up with a large loss for 2002 as a whole). Another factor that hampered the Portfolio vs. its benchmark was its limited exposure to Asian electronics stocks that had good showings. That stance reflected our general view that technology stocks have

**Credit Suisse Trust — Emerging Markets Portfolio  
Annual Investment Adviser’s Report (continued)**

December 31, 2002

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remained expensive. One factor that helped the Portfolio was its underweighting in Israel, which suffered amid ongoing political tensions.

In terms of regional allocation, Asia remained our largest weighting. We maintained an overweighting in South Korea and continued to favor Asia’s major northern economies in general. We pared our exposure to China late in the period on a stock-specific basis. We were underweighted in the Europe/Middle East/Africa segment, mostly due to country-specific concerns. That said, we increased our position in South Africa a little in December. Within Latin America, our bias remained in favor of Mexico, though we modestly added to our weighting in Brazil. We mostly favored defensive sectors in the latter. Regarding overall sector emphasis, we continued to be somewhat defensive and maintained an underweighting in the technology area based on valuations.

As we look ahead, we believe that high levels of correlation between the U.S. market and emerging markets continue to leave the group vulnerable to downdrafts in U.S. equities. We also have concerns that geopolitical tensions could return to the fore, most specifically regarding a war with Iraq, which could send oil prices higher while hurting investors’ appetite for risk in general.

On the other hand, we believe the fundamentals for emerging markets are fairly sound at this point. A number of emerging market countries have seen improvements in their sovereign ratings, and the trend for political risk has been mostly favorable in our view. Meanwhile, valuations remain compelling both in absolute terms, historically speaking, and compared with valuations on developed market equities. For our part, we will remain focused on identifying stocks and markets we deem to have good long-term prospects.

Emily Alejos  
Co-Portfolio Manager

Yaroslav Aranowicz  
Co-Portfolio Manager

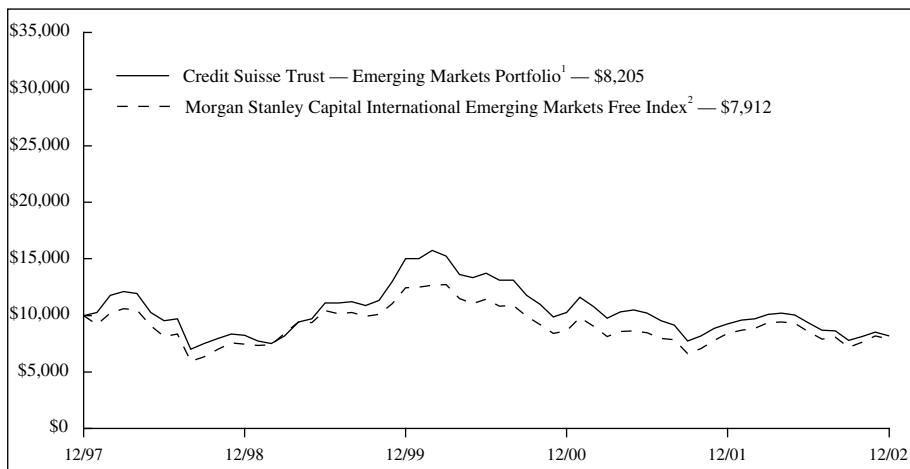
Annabel Betz  
Co-Portfolio Manager

Neil Gregson  
Associate Portfolio Manager

*International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods; these risks are generally heightened for emerging-market investments. The Portfolio may involve a greater degree of risk than other portfolios that seek capital growth by investing in larger, more-developed markets.*

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Annual Investment Adviser’s Report (concluded)**  
 December 31, 2002

**Comparison of Change in Value of \$10,000 Investment in the Credit Suisse Trust — Emerging Markets Portfolio<sup>1</sup> and the Morgan Stanley Capital International Emerging Markets Free Index<sup>2</sup> from Inception (12/31/97). (Unaudited)**



Note: Past performance is not predictive of future performance. Investment return and principal value of an investment will fluctuate so that an investor’s shares upon redemption may be worth more or less than their original cost. The performance results do not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares.

**Average Annual Returns as of December 31, 2002<sup>1</sup>**

<b><u>1 Year</u></b>	<b><u>5 Year</u></b>	<b><u>Since Inception</u></b>
(11.56%)	(3.88%)	(3.88%)

<sup>1</sup> Fee waivers and/or expense reimbursements reduced expenses for the Portfolio, without which performance would be lower. Waivers and/or reimbursements may be discontinued at any time.

<sup>2</sup> The Morgan Stanley Capital International EMF (Emerging Markets Free) Index is a free float-adjusted market capitalization index that is designed to measure equity-market performance in the global emerging markets. It is the exclusive property of Morgan Stanley Capital International Inc. Investors cannot invest directly in an index.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments**  
December 31, 2002

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS (94.8%)</b>		
<b>Brazil (6.1%)</b>		
<i>Aerospace &amp; Defense (0.6%)</i>		
Empresa Brasileira de Aeronautica SA ADR	16,600	\$ 263,940
<i>Beverages (1.2%)</i>		
Companhia de Bebidas das Americas ADR	35,500	552,380
<i>Metals &amp; Mining (2.5%)</i>		
Companhia Vale do Rio Doce ADR	30,900	849,750
Gerdau SA ADR	26,000	231,400
		<u>1,081,150</u>
<i>Oil &amp; Gas (1.8%)</i>		
Petroleo Brasileiro SA - Petrobras ADR	59,100	791,940
<b>TOTAL BRAZIL</b>		<u>2,689,410</u>
<b>Chile (0.8%)</b>		
<i>Diversified Telecommunication Services (0.8%)</i>		
Compania de Telecomunicaciones de Chile SA ADR	34,200	327,978
<b>TOTAL CHILE</b>		<u>327,978</u>
<b>China (3.8%)</b>		
<i>Electric Utilities (1.1%)</i>		
Huaneng Power International, Inc.	576,000	461,635
<i>Energy Equipment &amp; Services (0.7%)</i>		
China Oilfield Services, Ltd.*	1,320,000	321,605
<i>Transportation Infrastructure (1.0%)</i>		
Jiangsu Expressway Company, Ltd.	1,474,000	434,732
<i>Wireless Telecommunication Services (1.0%)</i>		
China Telecom Corporation, Ltd.*	2,539,000	446,045
<b>TOTAL CHINA</b>		<u>1,664,017</u>
<b>Hong Kong (4.8%)</b>		
<i>Computers &amp; Peripherals (0.7%)</i>		
Legend Group, Ltd.	990,000	326,895
<i>Distributors (1.0%)</i>		
China Resources Enterprise, Ltd.	480,000	424,704
<i>Oil &amp; Gas (1.3%)</i>		
CNOOC, Ltd.	442,500	578,775
<i>Wireless Telecommunication Services (1.8%)</i>		
China Mobile, Ltd.*	323,500	771,584
<b>TOTAL HONG KONG</b>		<u>2,101,958</u>
<b>Hungary (0.7%)</b>		
<i>Pharmaceuticals (0.7%)</i>		
Gedeon Richter Rt.	4,600	303,856
<b>TOTAL HUNGARY</b>		<u>303,856</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (continued)**

December 31, 2002

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS (continued)</b>		
<b>India (4.8%)</b>		
<i>Banks (1.2%)</i>		
HDFC Bank, Ltd. ADR	8,900	\$ 119,794
State Bank of India, Ltd. GDR	29,200	401,500
		<u>521,294</u>
<i>IT Consulting &amp; Services (1.2%)</i>		
Infosys Technologies, Ltd. ADR	4,300	299,065
Satyam Computer Services, Ltd. ADR	17,400	223,590
		<u>522,655</u>
<i>Pharmaceuticals (1.3%)</i>		
Dr. Reddy's Laboratories, Ltd. ADR	11,500	222,295
Ranbaxy Laboratories, Ltd. GDR	27,100	344,170
		<u>566,465</u>
<i>Textiles &amp; Apparel (1.1%)</i>		
Reliance Industries, Ltd. GDR Rule 144A‡	40,800	499,800
		<u>499,800</u>
<b>TOTAL INDIA</b>		<u>2,110,214</u>
<b>Israel (0.7%)</b>		
<i>Pharmaceuticals (0.7%)</i>		
Teva Pharmaceutical Industries, Ltd. ADR	8,200	316,602
		<u>316,602</u>
<b>TOTAL ISRAEL</b>		<u>316,602</u>
<b>Malaysia (7.9%)</b>		
<i>Banks (3.9%)</i>		
Malayan Banking Berhad	486,900	948,177
Public Bank Berhad	1,146,015	784,118
		<u>1,732,295</u>
<i>Construction &amp; Engineering (1.6%)</i>		
IJM Corp. Berhad	514,000	689,844
		<u>689,844</u>
<i>Hotels, Restaurants &amp; Leisure (2.4%)</i>		
Genting Berhad	299,422	1,055,860
		<u>1,055,860</u>
<b>TOTAL MALAYSIA</b>		<u>3,477,999</u>
<b>Mexico (7.6%)</b>		
<i>Banks (0.7%)</i>		
Grupo Financiero Bancomer*	433,400	327,618
		<u>327,618</u>
<i>Beverages (0.8%)</i>		
Grupo Modelo SA de CV Series C	136,800	333,241
		<u>333,241</u>
<i>Construction Materials (0.8%)</i>		
Cemex SA de CV ADR	15,302	329,146
		<u>329,146</u>
<i>Diversified Telecommunication Services (2.5%)</i>		
Telefonos de Mexico SA de CV ADR	34,958	1,117,957
		<u>1,117,957</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2002

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS (continued)</b>		
<b>Mexico (concluded)</b>		
<i>Multiline Retail (1.6%)</i>		
Wal-Mart de Mexico SA de CV ADR	30,100	\$ 684,612
<i>Wireless Telecommunication Services (1.2%)</i>		
America Movil SA de CV ADR	38,058	546,513
<b>TOTAL MEXICO</b>		<u>3,339,087</u>
<b>Poland (0.6%)</b>		
<i>Banks (0.6%)</i>		
Bank Pekao SA	10,900	268,625
<b>TOTAL POLAND</b>		<u>268,625</u>
<b>Russia (5.7%)</b>		
<i>Industrial Conglomerates (1.0%)</i>		
YUKOS ADR	3,000	422,788
<i>Oil &amp; Gas (3.9%)</i>		
Gazprom ADR	11,800	139,240
LUKOIL ADR	17,800	1,082,240
Surgutneftegaz ADR	30,300	481,467
		<u>1,702,947</u>
<i>Wireless Telecommunication Services (0.8%)</i>		
AO VimpelCom ADR*	11,100	355,311
<b>TOTAL RUSSIA</b>		<u>2,481,046</u>
<b>South Africa (7.5%)</b>		
<i>Banks (1.4%)</i>		
Standard Bank Group, Ltd.	173,289	608,897
<i>Containers &amp; Packaging (0.6%)</i>		
Nampak, Ltd.	143,100	235,984
<i>Insurance (0.9%)</i>		
Liberty Group, Ltd.	61,330	390,615
<i>Metals &amp; Mining (3.2%)</i>		
Anglo American Platinum Corporation, Ltd.	9,700	357,227
Gold Fields, Ltd.	63,278	884,215
Impala Platinum Holdings, Ltd.	2,700	171,493
		<u>1,412,935</u>
<i>Oil &amp; Gas (1.4%)</i>		
Sasol, Ltd.	51,300	627,758
<b>TOTAL SOUTH AFRICA</b>		<u>3,276,189</u>
<b>South Korea (24.5%)</b>		
<i>Automobiles (1.0%)</i>		
Hyundai Motor Company, Ltd.*	17,820	416,934

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2002

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS (continued)</b>		
<b>South Korea (concluded)</b>		
<i>Banks (4.6%)</i>		
Kookmin Bank*	42,515	\$ 1,505,527
Shinhan Financial Group Company, Ltd.	46,748	488,744
		<u>1,994,271</u>
<i>Building Products (0.7%)</i>		
Kumgang Korea Chemical Company, Ltd.	3,280	323,561
<i>Chemicals (1.2%)</i>		
LG Chemical, Ltd.*	15,600	534,008
<i>Construction &amp; Engineering (0.8%)</i>		
Daelim Industrial Company, Ltd.*	29,800	358,037
<i>Diversified Financials (0.4%)</i>		
Samsung Securities Company, Ltd.*	8,010	193,488
<i>Diversified Telecommunication Services (1.0%)</i>		
KT Corp.*	10,600	453,118
<i>Metals &amp; Mining (2.2%)</i>		
POSCO ADR	9,497	944,856
<i>Office Electronics (0.5%)</i>		
Sindo Ricoh Company, Ltd.*	4,000	220,901
<i>Semiconductor Equipment &amp; Products (8.0%)</i>		
Samsung Electronics Company, Ltd.	13,166	3,485,624
<i>Wireless Telecommunication Services (4.1%)</i>		
SK Telecom Company, Ltd.*	8,962	1,730,364
SK Telecom Company, Ltd. ADR*	3,200	68,320
		<u>1,798,684</u>
<b>TOTAL SOUTH KOREA</b>		<u>10,723,482</u>
<b>Taiwan (10.4%)</b>		
<i>Banks (2.1%)</i>		
Chinatrust Financial Holding Company, Ltd.*	1,135,923	924,549
<i>Computers &amp; Peripherals (1.9%)</i>		
Benq Corp.	254,000	284,170
Quanta Storage, Inc.*	79,000	529,392
		<u>813,562</u>
<i>Diversified Financials (1.0%)</i>		
Fubon Financial Holding Company, Ltd.	533,000	423,088
<i>Electronic Equipment &amp; Instruments (1.8%)</i>		
Hon Hai Precision Industry Company, Ltd.	231,478	798,888
<i>Semiconductor Equipment &amp; Products (3.6%)</i>		
Realtek Semiconductor Corp.	247,000	639,344

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2002

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS (concluded)</b>		
<b>Taiwan (concluded)</b>		
Taiwan Semiconductor Manufacturing Co.*	775,128	\$ 949,681
		<u>1,589,025</u>
<i>TOTAL TAIWAN</i>		<u>4,549,112</u>
<b>Thailand (2.8%)</b>		
<i>Chemicals (0.5%)</i>		
Vinythai Public Company, Ltd.*	1,076,000	<u>240,914</u>
<i>Construction Materials (0.7%)</i>		
Siam Cement Public Company, Ltd.	10,500	<u>304,524</u>
<i>Diversified Financials (1.6%)</i>		
National Finance Public Company, Ltd.*	2,012,400	<u>691,033</u>
<i>TOTAL THAILAND</i>		<u>1,236,471</u>
<b>Turkey (1.2%)</b>		
<i>Diversified Financials (0.8%)</i>		
Haci Omer Sabanci Holdings AS	64,058,998	167,866
Koc Holding AS	17,740,000	<u>184,346</u>
		<u>352,212</u>
<i>Wireless Telecommunication Services (0.4%)</i>		
Turkcell Iletisim Hizmetleri AS ADR*	12,000	<u>186,000</u>
<i>TOTAL TURKEY</i>		<u>538,212</u>
<b>United Kingdom (4.9%)</b>		
<i>Metals &amp; Mining (4.9%)</i>		
Anglo American PLC	146,740	<u>2,163,340</u>
<i>TOTAL UNITED KINGDOM</i>		<u>2,163,340</u>
<b>TOTAL COMMON STOCKS</b> (Cost \$39,871,445)		<u>41,567,598</u>
<b>WARRANTS (1.4%)</b>		
<b>United Kingdom (1.4%)</b>		
<i>Banks (1.4%)</i>		
UBS AG expiration date 5/27/03*	86,600	328,318
UBS AG expiration date 5/27/03*	62,413	126,936
UBS AG expiration date 5/27/03*	32,472	<u>183,830</u>
<b>TOTAL WARRANTS</b> (Cost \$746,269)		<u>639,084</u>
<b>RIGHTS (0.0%)</b>		
<b>Thailand (0.0%)</b>		
<i>Diversified Telecommunication Services (0.0%)</i>		
TelecomAsia Corporation Public Company, Ltd.**†† (Cost \$0)	50,021	<u>490</u>

See Accompanying Notes to Financial Statements.



**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (concluded)**  
December 31, 2002

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	<u>Par (000)</u>	<u>Value</u>
<b>SHORT-TERM INVESTMENT (3.5%)</b>		
State Street Bank and Trust Co. Euro Time Deposit, 1.188%, 1/02/03 (Cost \$1,526,000)	\$1,526	\$ 1,526,000
<b>TOTAL INVESTMENTS AT VALUE (99.7%)</b> (Cost \$42,143,714)		43,733,172
<b>OTHER ASSETS IN EXCESS OF LIABILITIES (0.3%)</b>		<u>134,235</u>
<b>NET ASSETS (100.0%)</b>		<u><u>\$43,867,407</u></u>

**INVESTMENT ABBREVIATIONS**

ADR = American Depositary Receipt

GDR = Global Depositary Receipt

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\* Non-income producing security.

† 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. At December 31, 2002, these securities amounted to a value of \$499,800 or 1.1% of net assets.

†† Not readily marketable, security is valued at fair value as determined in good faith by or under the direction of the Board of Trustees.

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Statement of Assets and Liabilities**  
December 31, 2002

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**Assets**

Investments at value (Cost \$42,143,714)	\$43,733,172
Cash	9
Foreign currency at value (Cost \$15,113)	15,192
Receivable for portfolio shares sold	203,010
Dividend and interest receivable	40,704
Prepaid expenses	7,765
Total Assets	<u>43,999,852</u>

**Liabilities**

Advisory fee payable	16,554
Administrative services fee payable	9,231
Trustees' fee payable	607
Payable for portfolio shares redeemed	61,490
Other accrued expenses payable	44,563
Total Liabilities	<u>132,445</u>

**Net Assets**

Capital stock, \$0.001 par value	5,894
Paid-in capital	63,377,762
Undistributed net investment loss	(11,406)
Accumulated net realized loss on investments and foreign currency transactions	(21,086,736)
Net unrealized appreciation from investments and foreign currency translations	1,581,893
Net Assets	<u>\$43,867,407</u>
Shares outstanding	<u>5,893,668</u>
Net asset value, offering price, and redemption price per share	<u>\$7.44</u>

See Accompanying Notes to Financial Statements.

# Credit Suisse Trust — Emerging Markets Portfolio

## Statement of Operations

For the Year Ended December 31, 2002

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### **Investment Income**

Dividends	\$ 759,641
Interest	46,613
Foreign taxes withheld	(90,587)
Total investment income	<u>715,667</u>

### **Expenses**

Investment advisory fees	586,316
Administrative services fees	82,416
Printing fees	76,372
Custodian fees	44,596
Legal fees	32,749
Audit fees	15,760
Transfer agent fees	7,259
Insurance expense	5,730
Registration fees	2,892
Trustees' fees	2,415
Interest expense	1,770
Miscellaneous expense	4,599
Total expenses	862,874
Less: fees waived	(206,200)
Net expenses	<u>656,674</u>
Net investment income	<u>58,993</u>

### **Net Realized and Unrealized Loss from Investments and**

#### **Foreign Currency Related Items**

Net realized loss from investments (Including Thailand Capital Gains Tax of \$(46,474))	(6,097,734)
Net realized loss from foreign currency transactions	(170,951)
Net change in unrealized appreciation (depreciation) from investments	(286,064)
Net change in unrealized appreciation (depreciation) from foreign currency translations	(1,180)
Net realized and unrealized loss from investments and foreign currency related items	<u>(6,555,929)</u>
Net decrease in net assets resulting from operations	<u><u>\$(6,496,936)</u></u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Statements of Changes in Net Assets**

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	<b>For the Year Ended December 31, 2002</b>	<b>For the Year Ended December 31, 2001</b>
<b><i>From Operations</i></b>		
Net investment income	\$ 58,993	\$ 230,216
Net realized loss from investments and foreign currency transactions	(6,268,685)	(9,058,391)
Net change in unrealized appreciation (depreciation) from investments and foreign currency translations	<u>(287,244)</u>	<u>5,884,035</u>
Net decrease in net assets resulting from operations	<u>(6,496,936)</u>	<u>(2,944,140)</u>
<b><i>From Dividends</i></b>		
Dividends from net investment income	<u>(92,763)</u>	<u>—</u>
<b><i>From Capital Share Transactions</i></b>		
Proceeds from sale of shares	129,411,936	158,745,561
Reinvestment of dividends	92,763	—
Net asset value of shares redeemed	<u>(117,378,658)</u>	<u>(150,074,287)</u>
Net increase in net assets from capital share transactions	<u>12,126,041</u>	<u>8,671,274</u>
Net increase in net assets	5,536,342	5,727,134
<b><i>Net Assets</i></b>		
Beginning of year	<u>38,331,065</u>	<u>32,603,931</u>
End of year	<u>\$ 43,867,407</u>	<u>\$ 38,331,065</u>
<i>Undistributed Net Investment Income (Loss)</i>	<u>\$ (11,406)</u>	<u>\$ 47,720</u>

See Accompanying Notes to Financial Statements.

## Credit Suisse Trust — Emerging Markets Portfolio

### Financial Highlights

(For a Share of the Portfolio Outstanding Throughout Each Period)

	For the Year Ended December 31,				
	2002	2001	2000	1999	1998
<b>Per share data</b>					
Net asset value, beginning of period	\$ 8.43	\$ 9.33	\$ 14.18	\$ 8.19	\$10.00
<b>INVESTMENT OPERATIONS</b>					
Net investment income	0.01	0.06	0.23	0.05 <sup>1</sup>	0.10
Net gain (loss) on investments and foreign currency related items (both realized and unrealized)	(0.98)	(0.96)	(4.70)	6.56	(1.83)
Total from investment operations	(0.97)	(0.90)	(4.47)	6.61	(1.73)
<b>LESS DIVIDENDS AND DISTRIBUTIONS</b>					
Dividends from net investment income	(0.02)	—	(0.20)	(0.04)	(0.08)
Distributions from net realized gains	—	—	(0.15)	(0.58)	—
Return of capital	—	—	(0.03)	—	—
Total dividends and distributions	(0.02)	—	(0.38)	(0.62)	(0.08)
<b>Net asset value, end of period</b>	<b>\$ 7.44</b>	<b>\$ 8.43</b>	<b>\$ 9.33</b>	<b>\$ 14.18</b>	<b>\$ 8.19</b>
Total return <sup>2</sup>	(11.56)%	(9.65)%	(31.55)%	81.40%	(17.30)%
<b>RATIOS AND SUPPLEMENTAL DATA</b>					
Net assets, end of period (000s omitted)	\$43,867	\$38,331	\$32,604	\$16,781	\$2,696
Ratio of expenses to average net assets	1.40%	1.40% <sup>3</sup>	1.42% <sup>3</sup>	1.42% <sup>3</sup>	1.40% <sup>3</sup>
Ratio of net investment income (loss) to average net assets	0.13%	0.63%	2.45%	(0.19)%	2.09%
Decrease reflected in above operating expense ratios due to waivers/reimbursements	0.44%	0.49%	0.27%	1.73%	6.81%
Portfolio turnover rate	128%	130%	208%	145%	21%

<sup>1</sup> Per share information is calculated using the average shares outstanding method.

<sup>2</sup> Total returns are historical and assume changes in share price and reinvestments of all dividends and distributions. Had certain expenses not been reduced during the periods shown, total returns would have been lower.

<sup>3</sup> Interest earned on uninvested cash balances is used to offset portions of the transfer agent expense. These arrangements resulted in a reduction to the Portfolio's net expense ratio by .00%, .02%, .02%, and .00% for each of the years ended December 31, 2001, 2000, 1999 and 1998, respectively. The Portfolio's net operating expense ratio after reflecting these arrangements was 1.40% for each of the years ended December 31, 2001, 2000, 1999 and 1998, respectively. For the year ended December 31, 2002, there were no transfer agent credits.

See Accompanying Notes to Financial Statements.

**Note 1. Summary of Significant Accounting Policies**

Credit Suisse Trust (the “Trust”), is an open-end management investment company registered under the Investment Company Act of 1940, as amended, and currently offers nine managed investment portfolios of which one, the Emerging Markets Portfolio (the “Portfolio”), is included in this report. The Portfolio is a non-diversified investment fund that seeks long-term growth of capital. Shares of the Portfolio are not available directly to individual investors but may be offered only through (a) variable annuity contracts and variable life insurance contracts offered by separate accounts of certain insurance companies and (b) tax-qualified pension and retirement plans. The Portfolio may not be available in connection with a particular contract or plan. The Trust was organized under the laws of the Commonwealth of Massachusetts as a business trust on March 15, 1995.

A) SECURITY VALUATION — The net asset value of the Portfolio is determined daily as of the close of regular trading on the New York Stock Exchange, Inc. The Portfolio’s equity investments are valued at market value, which is generally determined using the last reported sales price. If no sales are reported, equity investments are generally valued at the last reported bid price. Debt securities are valued on the basis of broker quotations or valuations provided by a pricing service which may use a matrix, formula or other objective method that takes into consideration market indices, yield curves and other specific adjustments. Securities and other assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Trustees under procedures established by the Board of Trustees in the absence of readily ascertainable market values. Debt obligations that will mature in 60 days or less are valued on the basis of amortized cost, which approximates market value, unless the Board of Trustees determines that using this method would not reflect an investment’s fair value.

B) FOREIGN CURRENCY TRANSACTIONS — The books and records of the Portfolio are maintained in U.S. dollars. Transactions denominated in foreign currencies are recorded at the current prevailing exchange rates. All assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the current exchange rate at the end of the period. Translation gains or losses resulting from changes in the exchange rate during the reporting period and realized gains and losses on the settlement of foreign currency transactions are reported in the results of operations for the current period. The Portfolio does not isolate that portion of realized gains and losses on investments in equity securities which is due to changes

**Note 1. Summary of Significant Accounting Policies — (continued)**

in the foreign exchange rate from that which is due to changes in market prices of equity securities. The Portfolio isolates that portion of realized gains and losses on investments in debt securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of debt securities.

C) SECURITY TRANSACTIONS AND INVESTMENT INCOME — Security transactions are accounted for on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income tax purposes.

D) DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS — Dividends from net investment income and distributions of net realized capital gains, if any, are declared and paid at least annually. However, to the extent that a net realized capital gain can be reduced by a capital loss carry-over, such gain will not be distributed. Income and capital gain distributions are determined in accordance with federal income tax regulations which may differ from accounting principles generally accepted in the United States of America (“GAAP”).

E) FEDERAL INCOME TAXES — No provision is made for federal taxes as it is the Trust’s intention to have the Portfolio continue to qualify for and elect the tax treatment applicable to regulated investment companies under the Internal Revenue Code of 1986, as amended, and make the requisite distributions to its shareholders which will be sufficient to relieve it from federal income and excise taxes.

F) USE OF ESTIMATES — The preparation of financial statements in conformity with 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

G) SHORT-TERM INVESTMENTS — The Portfolio, together with other funds/portfolios advised by Credit Suisse Asset Management, LLC (“CSAM”), an indirect, wholly-owned subsidiary of Credit Suisse Group, pool available cash into a short-term time deposit issued by State Street Bank and Trust Company, the Portfolio’s custodian. The short-term time deposit is a variable rate account classified as a short-term investment.

**Note 1. Summary of Significant Accounting Policies — (continued)**

H) FORWARD FOREIGN CURRENCY CONTRACTS — The Portfolio may enter into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering into these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency. The Portfolio will enter into forward foreign currency contracts primarily for hedging purposes. Forward foreign currency contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded for financial statement purposes as unrealized until the contract settlement date or an offsetting position is entered into. At December 31, 2002, the Portfolio had no open forward foreign currency contracts.

I) SECURITIES LENDING — Loans of securities are required at all times to be secured by collateral at least equal to 102% of the market value of domestic securities on loan including any accrued interest thereon and 105% of the market value of foreign securities on loan including any accrued interest thereon. Cash collateral received by the Portfolio in connection with securities lending activity is invested in the AIM Institutional Funds — Liquid Asset Portfolio. However, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings. The Portfolio had no securities out on loan during the year ended December 31, 2002.

Credit Suisse First Boston (“CSFB”), an affiliate of CSAM, has been engaged by the Portfolio to act as the Portfolio’s securities lending agent. CSFB has agreed to charge the Portfolio fees for its securities lending activities equal to its costs in providing services as securities lending agent. CSFB also has voluntarily agreed to waive its fees for the securities lending agent services that it provides. CSFB may discontinue its voluntary fee waivers at any time.

J) OTHER — The Portfolio may invest in securities of foreign countries and governments which involve certain risks in addition to those inherent in domestic investments. Such risks generally include, among others, currency risk (fluctuations in currency exchange rates), information risk (key information may be inaccurate or unavailable) and political risk (expropriation, nationalization or the imposition of capital or currency controls or punitive taxes). Other risks of investing in foreign securities include liquidity, market, operational and valuation risks.



**Note 1. Summary of Significant Accounting Policies — (concluded)**

The Portfolio's investments in securities of issuers located in less developed countries considered to be "emerging markets" involve risks in addition to those generally applicable to foreign securities. Focusing on emerging (less developed) markets involves higher levels of risk, including increased currency, information, liquidity, market, political and valuation risks. Deficiencies in regulatory oversight, market infrastructure, shareholder protections and company laws could expose the Portfolio to operational and other risks as well. Some countries may have restrictions that could limit the Portfolio's access to attractive opportunities. Additionally, emerging markets often face serious economic problems (such as high external debt, inflation and unemployment) that could subject the Portfolio to increased volatility or substantial declines in value.

The Portfolio may be subject to taxes imposed by countries in which it invests, with respect to its investments in issuers existing or operating in such countries. Such taxes are generally based on income earned or repatriated and capital gains realized on the sale of such investments. The Portfolio accrues such taxes when the related income or gains are earned.

**Note 2. Transactions with Affiliates and Related Parties**

CSAM serves as investment adviser for the Portfolio. For its investment advisory services, CSAM is entitled to receive a fee from the Portfolio at an annual rate of 1.25% of the Portfolio's average daily net assets. For the year ended December 31, 2002, investment advisory fees earned, and voluntarily waived were \$586,316 and \$206,200, respectively.

Credit Suisse Asset Management Limited ("CSAM Ltd. U.K."), an affiliate of CSAM, serves as sub-investment adviser to the Portfolio. CSAM Ltd. U.K. sub-investment advisory fee is paid by CSAM out of CSAM's net investment advisory fee and is not paid by the Portfolio.

Effective October 9, 2002, Credit Suisse Asset Management Limited (CSAM Australia) ("CSAM Ltd. Australia") an affiliate of CSAM, became a sub-investment adviser to the Portfolio. CSAM Ltd. Australia's sub-investment advisory fee is paid by CSAM out of CSAM's net investment advisory fee and is not paid by the Portfolio.

Credit Suisse Asset Management Securities, Inc. ("CSAMSI"), an affiliate of CSAM, and State Street Bank and Trust Company ("SSB"), serve as co-administrators to the Portfolio. At its meeting held on February 12, 2002 the Board of Trustees approved SSB to replace PFPC, Inc. ("PFPC"), as co-administrator effective May 1, 2002.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2002

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**Note 2. Transactions with Affiliates and Related Parties — (concluded)**

For its co-administrative services, CSAMSI currently receives a fee calculated at an annual rate of .10% of the Portfolio's average daily net assets. For the year ended December 31, 2002, co-administrative services fees earned by CSAMSI were \$46,905.

For its co-administrative services, PFPC was entitled to receive a fee, exclusive of out-of-pocket expenses, based on the following fee structure:

<u>Average Daily Net Assets</u>	<u>Annual Rate</u>
First \$500 million	.08% of average daily net assets
Next \$1 billion	.07% of average daily net assets
Over \$1.5 billion	.06% of average daily net assets

For the period January 1, 2002 through April 30, 2002, co-administrative service fees earned by PFPC (including out of pocket expenses) were \$14,985.

For its co-administrative services, SSB receives a fee, exclusive of out-of-pocket expenses, based upon the following fee structure calculated in total for all the Credit Suisse Funds/Portfolios co-administered by SSB and allocated based upon relative average net assets of each fund/portfolio.

<u>Average Daily Net Assets</u>	<u>Annual Rate</u>
First \$5 billion	.050% of average daily net assets
Next \$5 billion	.035% of average daily net assets
Over \$10 billion	.020% of average daily net assets

For the period May 1, 2002 through December 31, 2002, co-administrative service fees earned by SSB (including out-of-pocket fees) were \$20,526.

In addition to serving as the Portfolio's co-administrator, CSAMSI currently serves as distributor of the Portfolios shares without compensation.

Merrill Corporation ("Merrill"), an affiliate of CSAM, has been engaged by the Portfolio to provide certain financial printing and fulfillment services. For the year ended December 31, 2002, Merrill was paid \$28,677 for its services to the Portfolio.

**Note 3. Line of Credit**

The Portfolio, together with other funds/portfolios advised by CSAM (collectively, the "Participating Funds"), participates in a \$150 million committed, unsecured line of credit facility ("Credit Facility") with Deutsche Bank, A.G. as administrative agent and syndication agent and State Street

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2002

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**Note 3. Line of Credit — (concluded)**

Bank and Trust Company as operations agent for temporary or emergency purposes. Under the terms of the Credit Facility, the Participating Funds pay an aggregate commitment fee at a rate of 0.10% per annum on the average unused amount of the Credit Facility, which is allocated among the Participating Funds in such manner as is determined by the governing Boards of the Participating Funds. In addition, the Participating Funds pay interest on borrowings at the Federal Funds rate plus 0.50%. At December 31, 2002 and during the fiscal year ended December 31, 2002, the Portfolio had borrowings under the Credit Facility as follows:

<u>Average Daily Loan Balance</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Daily Loan Outstanding</u>
\$832,182	2.314%	\$1,177,000

**Note 4. Purchases and Sales of Securities**

For the year ended December 31, 2002, purchases and sales of investment securities (excluding short-term investments) were \$67,149,781 and \$55,874,699, respectively.

**Note 5. Capital Share Transactions**

The Portfolio is authorized to issue an unlimited number of full and fractional shares of beneficial interest, \$.001 par value per share. Transactions in capital shares of the Portfolio were as follows:

	<u>For the Year Ended December 31, 2002</u>	<u>For the Year Ended December 31, 2001</u>
Shares sold	14,893,040	18,757,687
Shares issued in reinvestment of dividends	12,158	—
Shares redeemed	<u>(13,557,723)</u>	<u>(17,704,414)</u>
Net increase	<u>1,347,475</u>	<u>1,053,273</u>

On December 31, 2002, the number of shareholders that held 5% or more of the outstanding shares of the Portfolio were as follows:

<u>Number of Shareholders</u>	<u>Approximate Percentage of Outstanding Shares</u>
4	90%

Some of the shareholders are comprised of omnibus accounts, which are held on behalf of several individual shareholders.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2002

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**Note 6. Federal Income Taxes**

Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing treatments of foreign currency transactions, losses deferred due to wash sales, Post-October losses, and excise tax regulations.

The tax characteristics of dividends and distributions paid during the year ended December 31, 2002, and 2001, respectively, for the Portfolio were as follows:

<u>Ordinary Income</u>		<u>Long-Term Capital Gain</u>	
<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
\$92,763	\$-	\$-	\$-

At December 31, 2002, the components of distributable earnings on a tax basis for the Portfolio were as follows:

Undistributed ordinary loss	\$ (11,406)
Accumulated realized loss	(19,452,093)
Unrealized depreciation	(52,750)
	<u><u>\$(19,516,249)</u></u>

At December 31, 2002, the Portfolio had capital loss carryovers available to offset possible future capital gains as follows:

<u>Expires October 31,</u>		
<u>2008</u>	<u>2009</u>	<u>2010</u>
\$3,547,931	\$9,218,260	\$5,545,648

Under current tax law, certain capital and currency losses realized after October 31 within a taxable year may be deferred and treated as occurring on the first day of the following tax year. For the tax period ended December 31, 2002, the Portfolio elected to defer net capital and currency losses arising between November 1, 2002 and December 31, 2002 in the amount of \$1,140,254 and \$11,406, respectively.

At December 31, 2002, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized depreciation from investments were \$43,778,357, \$2,017,191, \$(2,062,376) and \$(45,185), respectively.

**Note 6. Federal Income Taxes — (concluded)**

At December 31, 2002, the Portfolio reclassified \$25,356 from undistributed net investment income and \$354,286 from paid-in capital, to accumulated net realized loss on investments, to adjust for current period permanent book/tax differences which arose principally from differing book/tax treatments of net operating losses and foreign currency transactions. Net assets were not affected by these reclassifications.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Report of Independent Accountants**

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To the Board of Trustees of Credit Suisse Trust and Shareholders of  
Credit Suisse Trust — Emerging Markets Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the Emerging Markets Portfolio (the “Portfolio”), a portfolio of the Credit Suisse Trust, at December 31, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Portfolio’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2002 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania  
February 5, 2003

## Credit Suisse Trust — Emerging Markets Portfolio

### Information Concerning Trustees and Officers (Unaudited)

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<u>Name, Address and Age</u>	<u>Position(s) Held with Trust</u>	<u>Term of Office<sup>1</sup> and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Portfolios in Fund Complex Overseen by Trustee</u>	<u>Other Directorships Held by Trustee</u>
<b>Independent Trustees</b>					
Richard H. Francis c/o Credit Suisse Asset Management, LLC. 466 Lexington Avenue New York, New York 10017-3140  Age: 70	Trustee and Audit Committee Member	Since 1999	Currently retired; Executive Vice President and Chief Financial Officer of Pan Am Corporation and Pan American World Airways, Inc. from 1988 to 1991	54	None
Jack W. Fritz 2425 North Fish Creek Road P.O. Box 1287 Wilson, Wyoming 83014  Age: 75	Trustee and Audit Committee Member	Since Trust Inception	Private investor; Consultant and Director of Fritz Broadcasting, Inc. and Fritz Communications (developers and operators of radio stations) since 1987	53	Director of Advo, Inc. (direct mail advertising)
Jeffrey E. Garten Box 208200 New Haven, Connecticut 06520-8200  Age: 56	Trustee and Audit Committee Member	Since 1998 <sup>2</sup>	Dean of Yale School of Management and William S. Beinecke Professor in the Practice of International Trade and Finance; Undersecretary of Commerce for International Trade from November 1993 to October 1995; Professor at Columbia University from September 1992 to November 1993	53	Director of Aetna, Inc.; Director of Calpine Energy Corporation; Director of CarMax Group (used car dealers)

<sup>1</sup> Each Trustee and Officer serves until his or her respective successor has been duly elected and qualified.

<sup>2</sup> Mr. Garten was initially appointed as a Trustee on February 6, 1998. He resigned as Trustee on February 3, 2000 and was subsequently reappointed on December 21, 2000.

**Credit Suisse Trust — Emerging Markets Portfolio  
Information Concerning Trustees and Officers (Unaudited) (continued)**

<u>Name, Address and Age</u>	<u>Position(s) Held with Trust</u>	<u>Term of Office<sup>1</sup> and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Portfolios in Fund Complex Overseen by Trustee</u>	<u>Other Directorships Held by Trustee</u>
<b>Independent Trustees—(continued)</b>					
Peter F. Krogh 301 ICC Georgetown University Washington, DC 20057  Age: 65	Trustee and Audit Committee Member	Since 2001	Dean Emeritus and Distinguished Professor of International Affairs at the Edmund A. Walsh School of Foreign Service, Georgetown University; Moderator of PBS foreign affairs television series	53	Member of Board of The Carlisle Companies Inc.; Member of Selection Committee for Truman Scholars and Henry Luce Scholars; Senior Associate of Center for Strategic and International Studies; Trustee of numerous world affairs organizations
James S. Pasman, Jr. c/o Credit Suisse Asset Management, LLC, 466 Lexington Avenue New York, New York 10017-3140  Age: 71	Trustee and Audit Committee Member	Since 1999	Currently retired; President and Chief Operating Officer of National InterGroup, Inc. (holding company) from April 1989 to March 1991; Chairman of Permian Oil Co. from April 1989 to March 1991	55	Director of Education Management Corp.



**Credit Suisse Trust — Emerging Markets Portfolio**  
**Information Concerning Trustees and Officers (Unaudited) (continued)**

<u>Name, Address and Age</u>	<u>Position(s) Held with Trust</u>	<u>Term of Office<sup>1</sup> and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Portfolios in Fund Complex Overseen by Trustee</u>	<u>Other Directorships Held by Trustee</u>
<b>Independent Trustees—(concluded)</b>					
Steven N. Rappaport Lehigh Court, LLC 40 East 52nd Street New York, New York 10022  Age: 54	Trustee and Audit Committee Chairman	Since 1999	Partner of Lehigh Court, LLC since July 2002; President of SunGard Securities Finance, Inc. from 2001 to July 2002; President of Loanet, Inc. (on-line accounting service) from 1995 to 2001; Director, President, North American Operations, and former Executive Vice President from 1992 to 1993 of Worldwide Operations of Metallurg Inc. (manufacturer of specialty metals and alloys); Executive Vice President, Telerate, Inc. (provider of real-time information to the capital markets) from 1987 to 1992; Partner in the law firm of Hartman & Craven until 1987	54	None
<b>Interested Trustee</b>					
William W. Priest <sup>3</sup> Steinberg Priest & Sloane Capital Management 12 East 49th Street 12th Floor New York, New York 10017  Age: 61	Trustee	Since 1999	Senior Partner and Fund Manager, Steinberg Priest & Sloane Capital Management since March 2001; Chairman and Managing Director of CSAM from 2000 to February 2001, Chief Executive Officer and Managing Director of CSAM from 1990 to 2000	60	None

<sup>3</sup> Mr. Priest is a Trustee who is an “interested person” of the Trust as defined in the 1940 Act, because he provides consulting services to CSAM.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Information Concerning Trustees and Officers (Unaudited) (continued)**

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<u>Name, Address and Age</u>	<u>Position(s) Held with Trust</u>	<u>Term of Office<sup>1</sup> and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>
<b>Officers</b>			
<p>Laurence R. Smith            Credit Suisse Asset Management, LLC            466 Lexington Avenue            New York, New York            10017-3140</p> <p>Age: 44</p>	Chairman	Since 2002	Managing Director and Global Chief Investment Officer of CSAM; Associated with JP Morgan Investment Management from 1981 to 1999; Officer of other Credit Suisse Funds
<p>Hal Liebes, Esq.            Credit Suisse Asset Management, LLC            466 Lexington Avenue            New York, New York            10017-3140</p> <p>Age:38</p>	Vice President and Secretary	Since 1999	Managing Director and Global General Counsel of CSAM; Associated with Lehman Brothers, Inc. from 1996 to 1997; Associated with CSAM from 1995 to 1996; Associated with CS First Boston Investment Management from 1994 to 1995; Associated with Division of Enforcement, U.S. Securities and Exchange Commission from 1991 to 1994 ; Officer of other Credit Suisse Funds
<p>Michael A. Pignataro            Credit Suisse Asset Management, LLC            466 Lexington Avenue            New York, New York            10017-3140</p> <p>Age: 43</p>	Treasurer and Chief Financial Officer	Since 1999	Director and Director of Fund Administration of CSAM; Associated with CSAM since 1984; Officer of other Credit Suisse Funds
<p>Gregory N. Bressler, Esq.            Credit Suisse Asset Management, LLC            466 Lexington Avenue            New York, New York            10017-3140</p> <p>Age: 36</p>	Assistant Secretary	Since 2000	Director and Deputy General Counsel; Associated with CSAM since January 2000; Associated with the law firm of Swidler Berlin Shereff Friedman LLP from 1996 to 2000; Officer of other Credit Suisse Funds

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Information Concerning Trustees and Officers (Unaudited) (concluded)**

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<u>Name, Address and Age</u>	<u>Position(s) Held with Trust</u>	<u>Term of Office<sup>1</sup> and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>
<b>Officers—(concluded)</b>			
Kimiko T. Fields, Esq. Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140	Assistant Secretary	Since 2002	Vice President and Legal Counsel; Associated with CSAM since January 1998; Officer of other Credit Suisse Funds
Age: 39			
Rocco A. Del Guercio Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140	Assistant Treasurer	Since 1999	Vice President and Administrative Officer of CSAM; Associated with CSAM since June 1996; Assistant Treasurer, Bankers Trust Co. — Fund Administration from March 1994 to June 1996; Mutual Fund Accounting Supervisor, Dreyfus Corporation from April 1987 to March 1994; Officer of other Credit Suisse Funds
Age: 39			
Joseph Parascondola Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140	Assistant Treasurer	Since 2000	Assistant Vice President — Fund Administration of CSAM since April 2000; Assistant Vice President, Deutsche Asset Management from January 1999 to April 2000; Assistant Vice President, Weiss, Peck & Greer LLC from November 1995 to December 1998; Officer of other Credit Suisse Funds
Age: 39			
Robert M. Rizza Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140	Assistant Treasurer	Since 2002	Assistant Vice President of CSAM since January 2001; Administrative Officer of CSAM from March 1998 to December 2000; Assistant Treasurer of Bankers Trust Co. from April 1994 to March 1998; Officer of other Credit Suisse Funds
Age: 37			

The Statement of Additional Information includes additional information about the Trustees and is available, without charge, upon request, by calling 800-222-8977.

## Credit Suisse Trust — Emerging Markets Portfolio Shareholder Meeting Results (Unaudited)

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A special meeting of shareholders of the Portfolio was held at 466 Lexington Avenue, 16th Floor, New York, NY 10017 on October 9, 2002. The following matter was voted upon by the shareholders of the Portfolio and the results are presented below. Shares delivered not voted are included on the total for the proposal.

To approve a Sub-Investment Advisory Agreement for the Portfolio, Credit Suisse Asset Management, LLC and Credit Suisse Asset Management (Australia) Limited (“CSAM Australia”):

	<u>Shares</u>	<u>% of Total Shares Outstanding</u>	<u>% of Total Shares Voted</u>
For	5,267,174.85	87.61%	90.69%
Against	172,649.43	2.87%	2.97%
Abstain	367,991.40	6.12%	6.34%

**Important Tax Information for Corporate Shareholders**

During the fiscal year ended December 31, 2002, the Portfolio distributed \$446,110 of foreign source income on which the Portfolio paid foreign taxes of \$90,587. This information is being furnished to you pursuant to notice requirements of Section 853(a) and 855(d) of the Internal Revenue Code 1986, as amended the "Code", and the Treasury Regulations thereunder.

P.O. Box 55030, Boston, MA 02205-5030  
800-222-8977 ■ [www.CreditSuisseFunds.com](http://www.CreditSuisseFunds.com)

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TREMK-2-1202

# **CREDIT SUISSE FUNDS**

## Annual Report

December 31, 2002

### **CREDIT SUISSE TRUST ■ GLOBAL POST-VENTURE CAPITAL PORTFOLIO**

Credit Suisse Trust (the "Trust") shares are not available directly to individual investors, but may be offered only through certain insurance products and pension and retirement plans.

More complete information about the Trust, including charges and expenses, is provided in the *Prospectus*, which must precede or accompany this document and which should be read carefully before investing. You may obtain additional copies by calling 800-222-8977 or by writing to Credit Suisse Trust, P.O. Box 55030, Boston, MA 02205-5030.

Credit Suisse Asset Management Securities, Inc., Distributor, is located at 466 Lexington Ave., New York, NY 10017-3140. The Trust is advised by Credit Suisse Asset Management, LLC.

*The Portfolio's investment adviser and co-administrators may waive some fees and/or reimburse some expenses, without which performance would be lower. Waivers and/or reimbursements are subject to change.*

*Returns include change in share price and reinvestment of dividends and capital gains. **Past performance cannot guarantee future results.** Returns and share price will fluctuate, and redemption value may be more or less than original cost.*

*The views of the Portfolio's management are as of the date of the letter and the portfolio holdings described in this document are as of December 31, 2002; these views and portfolio holdings may have changed subsequent to these dates. Nothing in this document is a recommendation to purchase or sell securities.*

*Portfolio shares are not deposits or other obligations of Credit Suisse Asset Management, LLC ("CSAM") or any affiliate, are not FDIC-insured and are not guaranteed by CSAM or any affiliate.*



**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Annual Investment Adviser's Report**  
December 31, 2002

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January 21, 2003

Dear Shareholder:

For the 12 months ended December 31, 2002, Credit Suisse Trust — Global Post-Venture Capital Portfolio<sup>1</sup> (the "Portfolio") had a loss of 34.16%, versus declines of 30.26% for the Russell 2000 Growth Index<sup>2</sup>, 25.88% for the NASDAQ Industrials Index<sup>3</sup>, 21.07% for the Morgan Stanley Capital International World Index<sup>4</sup>, 27.41% for the Russell MidCap Growth Index<sup>4</sup> and 29.10% for the Russell 2500 Growth Index.<sup>5</sup>

The period was a very difficult one for most of the world's equity markets, hurt by uncertainty regarding the U.S. economy. While growth was surprisingly robust early in the period, the flow of data suggested a softer recovery going forward and even a potential return to recession. The outlook for profits dimmed accordingly. In addition, accounting irregularities uncovered within well-known U.S. corporations caused a deterioration in investor confidence. These developments, along with ongoing geopolitical tensions, overwhelmed any grounds for encouragement, not the least of which was a global easing of monetary policy.

Against this backdrop, the Portfolio had a significant loss, hurt by the global equity selloff and by the particular weakness in the growth-oriented stocks it targets. Stocks that hindered the Portfolio's performance included its U.S. and Japanese technology holdings and emerging-pharmaceutical holdings from Europe and elsewhere. On the positive side, stocks that aided the Portfolio's relative performance included its consumer-discretionary companies.

Not since 1929-1932 have major global stock markets experienced four consecutive negative years. With three successive negative years now behind us, what are the prospects for 2003?

We think that most markets could be more or less trapped in a trading range, at least over the intermediate term. As we see it, the negative factors remain the same. The geopolitical situation is very dangerous, and there is the potential for some unanticipated economic or financial shock. Valuations, while now more reasonable in our view, especially outside the technology sector, are not at historic troughs normally seen at market bottoms.

On the plus side, the U.S. Federal Reserve has reduced interest rates to the lowest level in more than four decades and is intent on using monetary tools to try and stave off deflation. With the Republicans now in full control of Congress, we expect to see more fiscal stimulus this year; the tax reduction package will, in its final form, likely be a part of this. We also continue to

**Credit Suisse Trust — Global Post-Venture Capital Portfolio  
Annual Investment Adviser's Report (continued)**

December 31, 2002

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believe that the American consumer is in better financial shape than is widely perceived. Spending could continue, albeit at a slower rate.

The bigger question mark for us involves other major economies. We feel that Japan remains the best candidate for a financial accident. Japanese officials are closer to dealing with the crippled banking sector, but any solution will more than likely undermine economic growth in the short run as life support is withdrawn from insolvent firms. If credible action on the banks is taken, it should improve the long-term prospects for Japan. In the Portfolio, Japan will probably remain an underweighted position, but the market may provide opportunities in select companies not dependent on the local economy.

Europe remains in the doldrums and policymakers have been less than active. The European Central Bank reluctantly cut rates in December in response to weak economic data, but the policymakers appear to have set a very low bar with regard to an acceptable rate of economic growth. Economic activity may have to become extremely weak before the ECB takes more action on rates. And from a fiscal standpoint, Germany is planning to raise taxes even though its economy teeters on recession. Nonetheless, we expect to see lower rates in Europe as the year progresses in response to lower economic growth and that could be good enough to provide selective investment opportunities.

From a sector perspective, we think that consumer, cyclical industrial, and healthcare stocks could offer opportunities. Technology will require rigid selectivity as most tech stocks are still selling at unreasonable valuations, in our judgment, given the earnings outlook. Finally, telecom may provide some interesting opportunities as that sector has been one of the worst performing sectors for the past two years, with many issues having fallen 90% or more.

Elizabeth B. Dater  
Co-Portfolio Manager

Vincent J. McBride  
Co-Portfolio Manager

Greg Norton-Kidd  
Co-Portfolio Manager

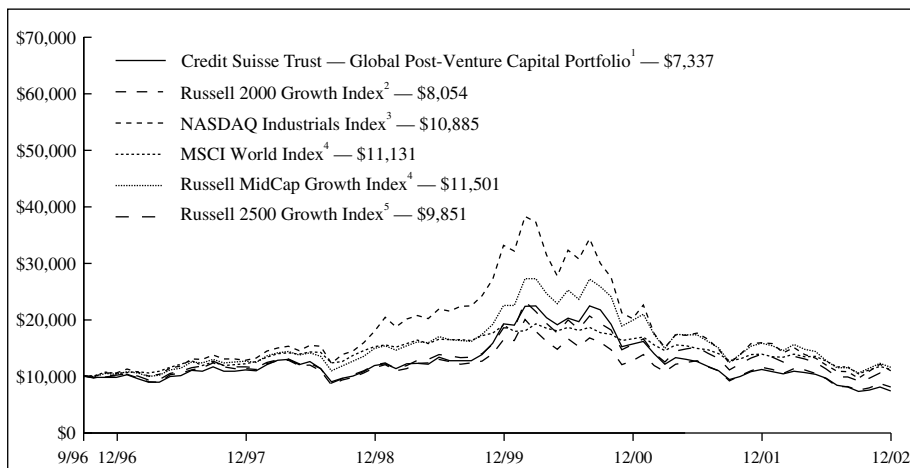
Calvin E. Chung  
Associate Portfolio Manager

*International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods. Because of the nature of the Portfolio's post-venture-capital investments and certain aggressive strategies it may use, an investment in the Portfolio may not be appropriate for all investors. There are also special risk considerations associated with post-venture capital investments. These are detailed in the prospectus, which should be read carefully before investing.*

**Credit Suisse Trust — Global Post-Venture Capital Portfolio  
Annual Investment Adviser’s Report (continued)**

December 31, 2002

**Comparison of Change in Value of \$10,000 Investment in the Credit Suisse Trust — Global Post-Venture Capital Portfolio<sup>1</sup>, the Russell 2000 Growth Index<sup>2</sup>, the NASDAQ Industrials Index<sup>3</sup>, the MSCI World Index<sup>4</sup>, the Russell MidCap Growth Index<sup>4</sup>, and the Russell 2500 Growth Index<sup>5</sup> from Inception (9/30/96). (Unaudited)**



Past performance is not predictive of future performance. Investment return and principal value of an investment will fluctuate so that an investor’s shares upon redemption may be worth more or less than their original cost. The performance results do not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares.

**Average Annual Returns as of December 31, 2002<sup>1</sup>**

<u>1 Year</u>	<u>5 Year</u>	<u>Since Inception</u>
(34.16%)	(7.88%)	(4.83%)

<sup>1</sup> Fee waivers and/or expense reimbursements reduced expenses for the Portfolio, without which performance would be lower. Waivers and/or reimbursements may be discontinued any time.

<sup>2</sup> The Russell 2000® Growth Index measures the performance of those companies in the Russell 2000® Index with higher price-to-book ratios and higher forecasted growth values. It is an unmanaged index of common stocks that includes reinvestment of dividends and is compiled by Frank Russell Company. Investors cannot invest directly in an index.

<sup>3</sup> The NASDAQ Industrials Index measures the stock price performance of more than 3,000 industrial issues included in the NASDAQ OTC

**Credit Suisse Trust — Global Post-Venture Capital Portfolio  
Annual Investment Adviser's Report (concluded)**

December 31, 2002

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Composite Index. The NASDAQ OTC Composite Index represents 4,500 stocks traded over the counter. Investors cannot invest directly in an index.

- <sup>4</sup> Effective December 12, 2002, the Portfolio has replaced its previous performance benchmarks, the Russell 2000® Growth Index, the Russell 2500™ Growth Index and the NASDAQ Industrials Index, with the MSCI World Index and the Russell MidCap® Growth Index. The Portfolio now compares its performance to the MSCI World Index and the Russell MidCap® Growth Index. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed-market equity performance. It is the exclusive property of Morgan Stanley Capital International Inc. The Russell MidCap® Growth Index measures the performance of those companies in the Russell MidCap® Index with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000® Growth Index. It is an unmanaged index of common stocks that includes reinvestment of dividends and is compiled by Frank Russell Company. The portfolio adopted the MSCI World Index and the Russell MidCap® Growth Index (together, the "New Benchmarks") as performance benchmarks because the New Benchmarks represent a better approximation of performance for the category of products in which the portfolio is included. Investors cannot invest directly in an index.
- <sup>5</sup> The Russell 2500™ Growth Index measures the performance of those companies in the Russell 2500™ Index with higher price-to-book ratios and higher forecasted growth values. It is an unmanaged index of common stocks that includes reinvestment of dividends and is compiled by Frank Russell Company. Investors cannot invest directly in an index.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Schedule of Investments**  
December 31, 2002

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS (92.0%)</b>		
<b>Canada (2.9%)</b>		
<i>Electronic Equipment &amp; Instruments (0.9%)</i>		
Celestica, Inc.*	39,000	\$ 549,900
<i>Food &amp; Drug Retailing (2.0%)</i>		
Shoppers Drug Mart Corp.*	78,000	1,211,137
<b>TOTAL CANADA</b>		
		<u>1,761,037</u>
<b>France (4.3%)</b>		
<i>Healthcare Providers &amp; Services (1.8%)</i>		
Generale de Sante*	94,700	1,088,131
<i>Office Electronics (2.5%)</i>		
Neopost SA*	46,960	1,512,807
<b>TOTAL FRANCE</b>		
		<u>2,600,938</u>
<b>Ireland (3.5%)</b>		
<i>Airlines (3.5%)</i>		
Ryanair Holdings PLC*	221,800	1,555,171
Ryanair Holdings PLC ADR*	15,150	593,274
<b>TOTAL IRELAND</b>		
		<u>2,148,445</u>
<b>Japan (2.5%)</b>		
<i>Leisure Equipment &amp; Products (2.5%)</i>		
Nintendo Company, Ltd.	16,200	1,513,929
<b>TOTAL JAPAN</b>		
		<u>1,513,929</u>
<b>Netherlands (3.6%)</b>		
<i>Food Products (2.4%)</i>		
Nutreco Holdings NV	78,640	1,468,036
<i>Semiconductor Equipment &amp; Products (1.2%)</i>		
ASML Holding NV*	87,260	728,862
<b>TOTAL NETHERLANDS</b>		
		<u>2,196,898</u>
<b>Norway (2.5%)</b>		
<i>Electronic Equipment &amp; Instruments (2.5%)</i>		
Tandberg ASA*	264,100	1,524,880
<b>TOTAL NORWAY</b>		
		<u>1,524,880</u>
<b>Singapore (0.9%)</b>		
<i>Electronic Equipment &amp; Instruments (0.9%)</i>		
Flextronics International, Ltd.*	64,800	530,712
<b>TOTAL SINGAPORE</b>		
		<u>530,712</u>
<b>Spain (1.0%)</b>		
<i>IT Consulting &amp; Services (1.0%)</i>		
Indra Sistemas SA	85,400	580,698
<b>TOTAL SPAIN</b>		
		<u>580,698</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2002

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS (continued)</b>		
<b>Sweden (1.9%)</b>		
<i>Healthcare Equipment &amp; Supplies (1.9%)</i>		
Getinge AB Class B	56,400	\$ 1,152,165
<i>TOTAL SWEDEN</i>		<u>1,152,165</u>
<b>Switzerland (3.9%)</b>		
<i>Computers &amp; Peripherals (2.2%)</i>		
Logitech International SA*	43,690	<u>1,303,406</u>
<i>Healthcare Equipment &amp; Supplies (1.7%)</i>		
Nobel Biocare Holding AG*	16,020	<u>1,030,001</u>
<i>TOTAL SWITZERLAND</i>		<u>2,333,407</u>
<b>United Kingdom (15.4%)</b>		
<i>Commercial Services &amp; Supplies (1.3%)</i>		
Nestor Healthcare Group PLC	224,500	<u>769,649</u>
<i>Diversified Financials (3.7%)</i>		
3i Group PLC	107,680	962,114
Amvescap PLC	199,050	<u>1,275,393</u>
		<u>2,237,507</u>
<i>Energy Equipment &amp; Services (1.4%)</i>		
Wood Group (John) PLC	335,000	<u>866,951</u>
<i>Hotels, Restaurants &amp; Leisure (2.9%)</i>		
Enterprise Inns PLC	126,280	1,157,376
William Hill PLC	174,500	<u>637,705</u>
		<u>1,795,081</u>
<i>Household Durables (2.6%)</i>		
MFI Furniture Group PLC	894,500	<u>1,591,260</u>
<i>Software (2.9%)</i>		
Amdocs, Ltd*	59,000	579,380
Sage Group PLC	540,900	<u>1,158,156</u>
		<u>1,737,536</u>
<i>Specialty Retail (0.6%)</i>		
Game Group PLC	631,500	<u>365,994</u>
<i>TOTAL UNITED KINGDOM</i>		<u>9,363,978</u>
<b>United States (49.6%)</b>		
<i>Aerospace &amp; Defense (1.0%)</i>		
L-3 Communications Holdings, Inc.*	13,100	<u>588,321</u>
<i>Banks (1.0%)</i>		
Mellon Financial Corp.	23,100	<u>603,141</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio  
Schedule of Investments (continued)**

December 31, 2002

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS (continued)</b>		
<b>United States (continued)</b>		
<i>Biotechnology (2.1%)</i>		
IDEC Pharmaceuticals Corp.*	14,700	\$ 487,599
Medimmune, Inc.*	28,800	782,496
		<u>1,270,095</u>
<i>Commercial Services &amp; Supplies (3.7%)</i>		
BISYS Group, Inc.*	56,400	896,760
Education Management Corp.*	36,200	1,361,120
		<u>2,257,880</u>
<i>Food &amp; Drug Retailing (2.0%)</i>		
Whole Foods Market, Inc.*	6,600	348,018
Wild Oats Markets, Inc.*	85,800	885,456
		<u>1,233,474</u>
<i>Healthcare Providers &amp; Services (9.9%)</i>		
Accredo Health, Inc.*	22,650	798,413
AdvancePCS*	25,100	557,471
Centene Corp.*	18,200	611,338
Coventry Health Care, Inc.*	20,400	592,212
Health Management Associates, Inc. Class A	35,200	630,080
Pediatrix Group Medical, Inc.*	15,000	600,900
Quest Diagnostics, Inc.*	16,200	921,780
Triad Hospitals, Inc.*	22,600	674,158
United Surgical Partners International, Inc.*	39,100	610,351
		<u>5,996,703</u>
<i>Household Durables (0.9%)</i>		
Yankee Candle Company, Inc.*	35,700	571,200
<i>Insurance (4.2%)</i>		
Ambac Financial Group, Inc.	11,000	618,640
Radian Group, Inc.	51,500	1,913,225
		<u>2,531,865</u>
<i>Internet &amp; Catalog Retail (2.0%)</i>		
USA Interactive*	53,500	1,223,010
<i>IT Consulting &amp; Services (1.7%)</i>		
Anteon International Corp.	43,200	1,036,800
<i>Leisure Equipment &amp; Products (1.0%)</i>		
Mattel, Inc.	30,000	574,500
<i>Media (3.6%)</i>		
Clear Channel Communications, Inc.*	16,200	604,098
Insight Communications Company, Inc.*	76,500	947,070
Radio One Inc. Class A*	40,800	596,496
		<u>2,147,664</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2002

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS (concluded)</b>		
<b>United States (concluded)</b>		
<i>Multiline Retail (1.1%)</i>		
Dollar Tree Stores, Inc.*	27,900	\$ 685,503
<i>Oil &amp; Gas (3.0%)</i>		
Newfield Exploration Co.*	28,600	1,031,030
Spinnaker Exploration Co.*	36,400	802,620
		<u>1,833,650</u>
<i>Pharmaceuticals (1.0%)</i>		
Watson Pharmaceuticals, Inc.*	21,600	610,632
<i>Semiconductor Equipment &amp; Products (2.9%)</i>		
Applied Micro Circuits Corp.*	167,900	619,551
Cypress Semiconductor Corp.*	40,900	233,948
Integrated Circuit Systems, Inc.*	26,900	490,925
Ultratech Stepper, Inc.*	43,800	430,948
		<u>1,775,372</u>
<i>Software (3.5%)</i>		
BEA Systems, Inc.*	116,500	1,336,255
THQ, Inc.*	61,000	808,250
		<u>2,144,505</u>
<i>Specialty Retail (3.9%)</i>		
Dick's Sporting Goods, Inc.*	32,900	631,680
Hot Topic, Inc.*	50,400	1,153,152
Urban Outfitters, Inc.*	23,400	551,538
		<u>2,336,370</u>
<i>Venture Capital (1.1%)</i>		
Austin Ventures**††	45,393	45,393
CVC Capital Partners**††	169,974	169,974
Madison Dearborn Partners, Inc.**††	107,598	107,598
Oak Investment Partners XLP**††	347,057	347,057
		<u>670,022</u>
<i>TOTAL UNITED STATES</i>		<u>30,090,707</u>
<b>TOTAL COMMON STOCKS</b> (Cost \$63,458,155)		<u>55,797,794</u>
<b>PREFERRED STOCKS (1.2%)</b>		
<b>United States (1.2%)</b>		
<i>Consumer Services (1.2%)</i>		
PRN Corp.**††	79,000	711,000
<i>Internet Software &amp; Services (0.0%)**</i>		
Planetweb, Inc.**††	183,800	12,866
<b>TOTAL PREFERRED STOCKS</b> (Cost \$1,709,331)		<u>723,866</u>

See Accompanying Notes to Financial Statements.



**Credit Suisse Trust — Global Post-Venture Capital Portfolio  
Schedule of Investments (concluded)**

December 31, 2002

	<u>Number of Shares</u>	<u>Value</u>
<b>WARRANTS (0.0%)</b>		
<b>United States (0.0%)</b>		
<i>Consumer Services (0.0%)</i>		
PRN Corp. Strike \$0.01, expires August 2011** (Cost \$0)	18,283	\$ 0
	<b>Par (000)</b>	
<b>SHORT-TERM INVESTMENT (6.2%)</b>		
State Street Bank and Trust Co. Euro Time Deposit, 1.188%, 1/02/03 (Cost \$3,747,000)	\$3,747	<u>3,747,000</u>
<b>TOTAL INVESTMENTS AT VALUE (99.4%) (Cost \$68,914,486)</b>		60,268,660
<b>OTHER ASSETS IN EXCESS OF LIABILITIES (0.6%)</b>		<u>363,938</u>
<b>NET ASSETS (100.0%)</b>		<u><u>\$60,632,598</u></u>

**INVESTMENT ABBREVIATIONS**

ADR = American Depositary Receipt

\* Non-income producing security.

\*\* Restricted security, not readily marketable; security is valued at fair value as determined in good faith by or under the direction of the Board of Trustees.

\*\* This represents less than 0.0% of net assets.

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Statement of Assets and Liabilities**  
December 31, 2002

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**Assets**

Investments at value (Cost \$68,914,486)	\$ 60,268,660
Cash	482
Foreign currency at value (cost \$3,435)	3,472
Receivable for portfolio shares sold	610,868
Dividend and interest receivable	22,835
Prepaid expenses	8,080
Total Assets	<u>60,914,397</u>

**Liabilities**

Advisory fee payable	16,574
Administrative services fee payable	11,950
Payable for investments purchased	168,519
Payable for portfolio shares redeemed	21,901
Trustees' fee payable	607
Other accrued expenses payable	62,248
Total Liabilities	<u>281,799</u>

**Net Assets**

Capital stock, \$0.001 par value	9,481
Paid-in capital	149,606,650
Accumulated net realized loss on investments and foreign currency transactions	(80,338,127)
Net unrealized depreciation from investments and foreign currency translations	(8,645,406)
Net Assets	<u>\$ 60,632,598</u>
Shares outstanding	<u>9,480,775</u>
Net asset value, offering price, and redemption price per share	<u>\$6.40</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Statement of Operations**  
For the Year Ended December 31, 2002

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***Investment Income***

Dividends	\$ 450,383
Interest	82,127
Net investment loss allocated from partnerships	(59,064)
Foreign taxes withheld	(58,052)
	<hr/>
Total investment income	415,394

***Expenses***

Investment advisory fees	1,033,576
Administrative services fees	140,983
Printing fees	144,091
Legal fees	29,039
Custodian fees	21,829
Audit fees	17,150
Transfer agent fees	10,638
Insurance expense	9,201
Trustees' fees	2,488
Registration fees	2,172
Miscellaneous expense	3,002
	<hr/>
Total expenses	1,414,169
Less: fees waived	(256,564)
	<hr/>
Net expenses	1,157,605
	<hr/>
Net investment loss	(742,211)

***Net Realized and Unrealized Gain (Loss) from Investments and***

***Foreign Currency Related Items***

Net realized loss from investments	(19,160,659)
Net realized loss on foreign currency transactions	(449,661)
Net change in unrealized appreciation (depreciation) from investments	(13,793,599)
Net change in unrealized appreciation (depreciation) from foreign currency translations	345
	<hr/>
Net realized and unrealized loss from investments and foreign currency related items	(33,403,574)
	<hr/>
Net decrease in net assets resulting from operations	\$(34,145,785)

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Statements of Changes in Net Assets**

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	<b>For the Year Ended December 31, 2002</b>	<b>For the Year Ended December 31, 2001</b>
<b><i>From Operations</i></b>		
Net investment loss	\$ (742,211)	\$ (1,017,571)
Net realized loss on investments and foreign currency transactions	(19,610,320)	(52,429,447)
Net change in unrealized appreciation (depreciation) from investments and foreign currency translations	<u>(13,793,254)</u>	<u>6,841,716</u>
Net decrease in net assets resulting from operations	<u>(34,145,785)</u>	<u>(46,605,302)</u>
<b><i>From Capital Share Transactions</i></b>		
Proceeds from sale of shares	80,332,614	128,517,444
Net asset value of shares redeemed	<u>(92,211,758)</u>	<u>(143,289,020)</u>
Net decrease in net assets from capital share transactions	<u>(11,879,144)</u>	<u>(14,771,576)</u>
Net decrease in net assets	(46,024,929)	(61,376,878)
<b><i>Net Assets</i></b>		
Beginning of year	106,657,527	<u>168,034,405</u>
End of year	<u>\$ 60,632,598</u>	<u>\$ 106,657,527</u>
<i>Accumulated Net Investment loss</i>	<u>\$ —</u>	<u>\$ (39,689)</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Financial Highlights**  
(For a Share of the Portfolio Outstanding Throughout Each Period)

	<b>For the Year Ended December 31,</b>				
	<b>2002</b>	<b>2001</b>	<b>2000<sup>1</sup></b>	<b>1999</b>	<b>1998</b>
<b>Per share data</b>					
Net asset value, beginning of period	\$ 9.72	\$ 13.62	\$ 19.26	\$ 11.82	\$ 11.06
<b>INVESTMENT OPERATIONS</b>					
Net investment loss	(0.08)	(0.09)	(0.09)	(0.08)	(0.04)
Net gain (loss) on investments and foreign currency related items (both realized and unrealized)	<u>(3.24)</u>	<u>(3.81)</u>	<u>(3.56)</u>	<u>7.52</u>	<u>0.80</u>
Total from investment operations	<u>(3.32)</u>	<u>(3.90)</u>	<u>(3.65)</u>	<u>7.44</u>	<u>0.76</u>
<b>LESS DISTRIBUTIONS</b>					
Distributions from net realized gains	<u>—</u>	<u>—</u>	<u>(1.99)</u>	<u>—</u>	<u>—</u>
Total distributions	<u>—</u>	<u>—</u>	<u>(1.99)</u>	<u>—</u>	<u>—</u>
<b>Net asset value, end of period</b>					
Total return <sup>2</sup>	<u>\$ 6.40</u>	<u>\$ 9.72</u>	<u>\$ 13.62</u>	<u>\$ 19.26</u>	<u>\$ 11.82</u>
	(34.16)%	(28.63)%	(18.94)%	62.94%	6.87%
<b>RATIOS AND SUPPLEMENTAL DATA</b>					
Net assets, end of period (000s omitted)	\$60,633	\$106,658	\$168,034	\$151,784	\$62,055
Ratio of expenses to average net assets	1.40%	1.40% <sup>3</sup>	1.42% <sup>3</sup>	1.41% <sup>3</sup>	1.40% <sup>3</sup>
Ratio of net investment loss to average net assets	(0.90)%	(0.84)%	(0.75)%	(0.87)%	(0.83)%
Decrease reflected in above operating expense ratios due to waivers/reimbursements	0.31%	0.21%	0.11%	0.18%	0.30%
Portfolio turnover rate	86%	121%	69%	44%	73%

<sup>1</sup> Certain distribution amounts have been reclassified to conform to the current year presentation.

<sup>2</sup> Total returns are historical and assume changes in share price and reinvestments of all dividends and distributions. Had certain expenses not been reduced during the periods shown, total returns would have been lower.

<sup>3</sup> Interest earned on uninvested cash balances is used to offset portions of the transfer agent expense. These arrangements resulted in a reduction to the Portfolio's net expense ratio by .00%, .02%, .01%, and .00% for each of the years ended December 31, 2001, 2000, 1999, and 1998, respectively. The Portfolio's net operating expense ratio after reflecting these arrangements was 1.40% for the years ended December 31, 2001, 2000, 1999, and 1998. For the year ended December 31, 2002, there were no transfer agent credits.

See Accompanying Notes to Financial Statements.

**Note 1. Summary of Significant Accounting Policies**

Credit Suisse Trust, (the “Trust”), is an open-end management investment company registered under the Investment Company Act of 1940, as amended, and currently offers nine managed investment portfolios of which one, the Global Post-Venture Capital Portfolio (the “Portfolio”), is included in this report. The Portfolio is a diversified investment fund that seeks long-term growth of capital. Shares of the Portfolio are not available directly to individual investors but may be offered only through (a) variable annuity contracts and variable life insurance contracts offered by separate accounts of certain insurance companies and (b) tax-qualified pension and retirement plans. The Portfolio may not be available in connection with a particular contract or plan. The Trust was organized under the laws of the Commonwealth of Massachusetts as a business trust on March 15, 1995.

A) SECURITY VALUATION — The net asset value of the Portfolio is determined daily as of the close of regular trading on the New York Stock Exchange, Inc. The Portfolio’s equity investments are valued at market value, which is generally determined using the last reported sales price. If no sales are reported, equity investments are generally valued at the last reported bid price. Debt securities are valued on the basis of broker quotations or valuations provided by a pricing service which may use a matrix, formula or other objective method that takes into consideration market indices, yield curves and other specific adjustments. Securities and other assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Trustees under procedures established by the Board of Trustees in the absence of readily ascertainable market values. Debt obligations that will mature in 60 days or less are valued on the basis of amortized cost, which approximates market value, unless the Board of Trustees determines that using this method would not reflect an investment’s fair value.

The Portfolio initially values its investments in private-equity portfolios at cost. After that, the Portfolio values these investments according to reports from the private-equity portfolios that Abbott Capital Management, LLC (“Abbott”), the Portfolio’s sub-investment adviser, generally receives on a quarterly basis. The Portfolio’s net asset value typically will not reflect interim changes in the values of its private-equity portfolio investments. At December 31, 2002 the investments valued by Abbott were \$670,022 or 1.1% of net assets.

**Note 1. Summary of Significant Accounting Policies — (continued)**

B) FOREIGN CURRENCY TRANSACTIONS — The books and records of the Portfolio are maintained in U.S. dollars. Transactions denominated in foreign currencies are recorded at the current prevailing exchange rates. All assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the current exchange rate at the end of the period. Translation gains or losses resulting from changes in the exchange rate during the reporting period and realized gains and losses on the settlement of foreign currency transactions are reported in the results of operations for the current period. The Portfolio does not isolate that portion of realized gains and losses on investments in equity securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of equity securities. The Portfolio isolates that portion of realized gains and losses on investments in debt securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of debt securities.

C) SECURITY TRANSACTIONS AND INVESTMENT INCOME — Security transactions are accounted for on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income tax purposes.

D) DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS — Dividends from net investment income and distributions of net realized capital gains, if any, are declared and paid at least annually. However, to the extent that a net realized capital gain can be reduced by a capital loss carry-over, such gain will not be distributed. Income and capital gain distributions are determined in accordance with federal income tax regulations which may differ from accounting principles generally accepted in the United States of America (“GAAP”).

E) FEDERAL INCOME TAXES — No provision is made for federal taxes as it is the Trust’s intention to have the Portfolio continue to qualify for and elect the tax treatment applicable to regulated investment companies under the Internal Revenue Code of 1986, as amended, and make the requisite distributions to its shareholders which will be sufficient to relieve it from federal income and excise taxes.

**Note 1. Summary of Significant Accounting Policies — (continued)**

F) USE OF ESTIMATES — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

G) SHORT TERM INVESTMENTS — The Portfolio, together with other funds/portfolios advised by Credit Suisse Asset Management, LLC (“CSAM”), an indirect, wholly-owned subsidiary of Credit Suisse Group, pool available cash into a short-term time deposit issued by State Street Bank and Trust Company, the Portfolio’s custodian. The short-term time deposit is a variable rate account classified as a short-term investment.

H) FORWARD FOREIGN CURRENCY CONTRACTS — The Portfolio may enter into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering into these contracts from the potential inability of counter parties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency. The Portfolio will enter into forward foreign currency contracts primarily for hedging purposes. Forward foreign currency contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded for financial statement purposes as unrealized until the contract settlement date or an offsetting position is entered into. At December 31, 2002, the Portfolio had no open forward foreign currency contracts.

I) SECURITIES LENDING — Loans of securities are required at all times to be secured by collateral at least equal to 102% of the market value of domestic securities on loan including any accrued interest thereon and 105% of the market value of foreign securities on loan including any accrued interest thereon. Cash collateral received by the Portfolio in connection with securities lending activity is invested in the AIM Institutional Funds — Liquid Asset Portfolio. However, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings. The Portfolio had no securities out on loan during the year ended December 31, 2002.

Credit Suisse First Boston (“CSFB”), an affiliate of CSAM, has been engaged by the Portfolio to act as the Portfolio’s securities lending agent. CSFB has agreed to charge the Portfolio fees for its securities lending



**Note 1. Summary of Significant Accounting Policies — (concluded)**

activities equal to its costs in providing services as securities lending agent. CSFB also has voluntarily agreed to waive its fees for the securities lending agent services that it provides. CSFB may discontinue its voluntary fee waivers at any time.

J) PARTNERSHIP ACCOUNTING POLICY — The Portfolio records its pro-rata share of the income/(loss) and capital gains/(losses) allocated from the underlying partnerships and adjusts the cost of the underlying partnerships accordingly. These amounts are included in the Portfolio's Statement of Operations.

K) OTHER — The Portfolio may invest in securities of foreign countries and governments which involve certain risks in addition to those inherent in domestic investments. Such risks generally include, among others, currency risk (fluctuations in currency exchange rates), information risk (key information may be inaccurate or unavailable) and political risk (expropriation, nationalization or the imposition of capital or currency controls or punitive taxes). Other risks of investing in foreign securities include liquidity and valuation risks.

The Portfolio may be subject to taxes imposed by countries in which it invests, with respect to its investments in issuers existing or operating in such countries. Such taxes are generally based on income earned or repatriated and capital gains realized on the sale of such investments. The Portfolio accrues such taxes when the related income or gains are earned.

The Portfolio may invest up to 15% of its total assets in non-publicly traded securities. Non-publicly traded securities may be less liquid than publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized from such sales could differ from the price originally paid by the Portfolio or the current carrying values, and the difference could be material.

**Note 2. Transactions with Affiliates and Related Parties**

CSAM serves as investment adviser for the Portfolio. For its investment advisory services, CSAM is entitled to receive a fee from the Portfolio at an annual rate of 1.25% of the Portfolio's average daily net assets. For the year ended December 31, 2002, investment advisory fees earned and voluntarily waived were \$1,033,576 and \$256,564, respectively.

**Note 2. Transactions with Affiliates and Related Parties — (continued)**

Effective May 1, 2002, Credit Suisse Asset Management Limited (CSAM U.K.) (“CSAM Ltd. U.K.”) and Credit Suisse Asset Management Limited (CSAM Japan) (“CSAM Ltd. Japan”) affiliates of CSAM, became sub-investment advisers to the Portfolio. CSAM Ltd. U.K. and CSAM Ltd. Japan’s sub-investment advisory fees are paid by CSAM out of CSAM’s net investment advisory fee and are not paid by the Portfolio.

Effective October 9, 2002, Credit Suisse Asset Management Limited (CSAM Australia) (“CSAM Australia”) an affiliate of CSAM, became a sub-investment adviser to the Portfolio. CSAM Australia’s sub-investment advisory fee is paid by CSAM out of CSAM’s net investment advisory fee and is not paid by the Portfolio.

Abbott serves as sub-investment adviser for the Portfolio’s assets invested in U.S. or foreign private limited partnerships or other investment funds (“Private-Equity Portfolios”). Pursuant to the sub-advisory agreement between Abbott and CSAM, Abbott is entitled to a quarterly fee from CSAM at the annual rate of 1.00% of the value of the Portfolio’s Private-Equity Portfolios as of the end of each calendar quarter, which fee amount or a portion thereof may be waived by Abbott. No compensation is paid by the Portfolio to Abbott for its sub-investment advisory services.

Credit Suisse Asset Management Securities, Inc. (“CSAMSI”), an affiliate of CSAM, and State Street Bank and Trust Company (“SSB”), serve as co-administrators to the Portfolio. At its meeting held on February 12, 2002 the Board of Trustees approved SSB to replace PFPC, Inc. (“PFPC”), as co-administrator effective May 1, 2002.

For its co-administrative services, CSAMSI currently receives a fee calculated at an annual rate of .10% of the Portfolio’s average daily net assets. For the year ended December 31, 2002, co-administrative services fees earned by CSAMSI were \$82,686.

For its co-administrative services, PFPC was entitled to receive a fee, exclusive of out-of-pocket expenses, based on the following fee structure:

**Average Daily Net Assets**

First \$500 Million  
Next \$1 billion  
Over \$1.5 billion

**Annual Rate**

.08% of average daily net assets  
.07% of average daily net assets  
.06% of average daily net assets

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2002

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**Note 2. Transactions with Affiliates and Related Parties — (concluded)**

For the period January 1, 2002 through April 30, 2002, co-administrative service fees earned by PFPC (including out-of-pocket expenses) were \$29,385.

For its co-administrative services, SSB receives a fee, exclusive of out-of-pocket expenses, based upon the following fee structure calculated in total for all the Credit Suisse Funds/Portfolios co-administered by SSB and allocated based upon relative average net assets of each fund/portfolio.

<u>Average Daily Net Assets</u>	<u>Annual Rate</u>
First \$5 billion	.050% of average daily net assets
Next \$5 billion	.035% of average daily net assets
Over \$10 billion	.020% of average daily net assets

For the period May 1, 2002 through December 31, 2002, co-administrative service fees earned by SSB (including out-of-pocket expenses) were \$28,912.

In addition to serving as the Portfolio's co-administrator, CSAMSI currently serves as distributor of the Portfolio's shares without compensation.

Merrill Corporation ("Merrill"), an affiliate of CSAM, has been engaged by the Portfolio to provide certain financial printing and fulfillment services. For the year ended December 31, 2002, Merrill was paid \$33,220 for its services to the Portfolio.

**Note 3. Line of Credit**

The Portfolio, together with other funds/portfolios advised by CSAM (collectively, the "Participating Funds"), participates in a \$150 million committed, unsecured line of credit facility ("Credit Facility") with Deutsche Bank, A.G. as administrative agent and syndication agent and State Street Bank and Trust Company as operations agent for temporary or emergency purposes. Under the terms of the Credit Facility, the Participating Funds pay an aggregate commitment fee at a rate of 0.10% per annum on the average unused amount of the Credit Facility, which is allocated among the Participating Funds in such manner as is determined by the governing Boards of the Participating Funds. In addition, the Participating Funds pay interest on borrowings at the Federal Funds rate plus 0.50%. At December 31, 2002 and during the fiscal year ended December 31, 2002, the Portfolio had no borrowings under the Credit Facility.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2002

**Note 4. Purchases and Sales of Securities**

For the year ended December 31, 2002, purchases and sales of investment securities (excluding short-term investments) were \$68,716,098 and \$81,395,412, respectively.

**Note 5. Restricted Securities**

Certain of the Portfolio's investments are restricted as to resale, and are valued at fair value as determined in good faith by or under the direction of the Board of Trustees under procedures established by the Board of Trustees in the absence of readily ascertainable market values. The table below shows the number of shares held, the acquisition dates, aggregate cost, fair values as of December 31, 2002, value per share of such securities and percent of net assets which the securities represent.

<b>Security Description</b>	<b>Security Type</b>	<b>Number of Shares</b>	<b>Acquisition Dates</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Value per Share</b>	<b>Percentage of Net Assets</b>
Austin Ventures	Ltd. Partnership	45,393	7/13/01	\$ 85,010	\$ 45,393	\$1.00	0.07%
CVC Capital Partners	Ltd. Partnership	169,974	9/04/01	178,438	169,974	1.00	0.28%
Madison Dearborn Partners	Ltd. Partnership	107,598	4/02/01	143,063	107,598	1.00	0.18%
Oak Investment Partners XLP	Ltd. Partnership	347,057	1/18/01	404,907	347,057	1.00	0.57%
Planetweb, Inc.	Preferred Stock	183,800	9/08/00	998,331	12,866	0.07	0.02%
PRN Corp.	Preferred Stock	79,000	8/13/01	711,000	711,000	9.00	1.17%
PRN Corp.	Warrants	18,283	8/14/01	—	—	—	—
				<u>\$2,520,749</u>	<u>\$1,393,888</u>		<u>2.29%</u>

**Note 6. Capital Share Transactions**

The Portfolio is authorized to issue an unlimited number of full and fractional shares of beneficial interest, \$.001 par value per share. Transactions in capital shares of the Portfolio were as follows:

	<b>For the Year Ended December 31, 2002</b>	<b>For the Year Ended December 31, 2001</b>
Shares sold	9,776,103	12,089,897
Shares redeemed	<u>(11,272,031)</u>	<u>(13,450,827)</u>
Net decrease	<u>(1,495,928)</u>	<u>(1,360,930)</u>

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2002

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**Note 6. Capital Share Transactions — (concluded)**

On December 31, 2002, the number of shareholders that held 5% or more of the outstanding shares of the Portfolio were as follows:

<u>Number of Shareholders</u>	<u>Approximate Percentage of Outstanding Shares</u>
5	76%

Some of the shareholders are comprised of omnibus accounts, which are held on behalf of several individual shareholders.

**Note 7. Federal Income Taxes**

Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing treatments of foreign currency transactions, losses deferred due to wash sales, post October losses, investments in passive foreign investment companies and excise tax regulations.

There were no distributions in the year ended December 31, 2002.

At December 31, 2002, the components of distributable earnings on a tax basis were as follows:

Accumulated realized loss	\$(80,249,381)
Unrealized depreciation	<u>(8,734,152)</u>
	<u><u>\$(88,983,533)</u></u>

At December 31, 2002, the Portfolio had capital loss carryovers available to offset possible future capital gains as follows:

<u>Expires October 31</u>	
<u>2009</u>	<u>2010</u>
\$57,257,384	\$19,475,667

Under current tax law, certain capital losses realized after October 31 within taxable year may be deferred and treated as occurring on the first day of the following tax year. For the tax period ended December 31, 2002, the Portfolio elected to defer net losses arising between November 1, 2002 and December 31, 2002 of \$3,516,330.

**Note 7. Federal Income Taxes — (concluded)**

At December 31, 2002, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized depreciation from investments were \$69,003,232, \$3,714,401, \$(12,448,973) and \$(8,734,572), respectively.

At December 31, 2002, the Portfolio reclassified \$781,900 to accumulated undistributed net investment loss and \$369,111 to accumulated net realized loss from investments from paid-in capital, to adjust for current period permanent book/tax differences which arose principally from differing book/tax treatments of net operating losses, foreign currency transactions and investments in passive foreign investment companies. Net assets were not affected by these reclassifications.

## **Credit Suisse Trust — Global Post-Venture Capital Portfolio Report of Independent Accountants**

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To the Board of Trustees of Credit Suisse Trust and Shareholders  
of Credit Suisse Trust — Global Post-Venture Capital Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the Global Post-Venture Capital Portfolio (the "Portfolio"), a portfolio of the Credit Suisse Trust at December 31, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2002 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

February 5, 2003

## Credit Suisse Trust — Global Post-Venture Capital Portfolio Information Concerning Trustees and Officers (Unaudited)

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<u>Name, Address and Age</u>	<u>Position(s) Held with Trust</u>	<u>Term of Office<sup>1</sup> and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Portfolios in Fund Complex Overseen by Trustee</u>	<u>Other Directorships Held by Trustee</u>
<b>Independent Trustees</b>					
Richard H. Francis c/o Credit Suisse Asset Management, LLC. 466 Lexington Avenue New York, New York 10017-3140  Age: 70	Trustee and Audit Committee Member	Since 1999	Currently retired; Executive Vice President and Chief Financial Officer of Pan Am Corporation and Pan American World Airways, Inc. from 1988 to 1991	54	None
Jack W. Fritz 2425 North Fish Creek Road P.O. Box 1287 Wilson, Wyoming 83014  Age: 75	Trustee and Audit Committee Member	Since Trust Inception	Private investor; Consultant and Director of Fritz Broadcasting, Inc. and Fritz Communications (developers and operators of radio stations) since 1987	53	Director of Advo, Inc. (direct mail advertising)
Jeffrey E. Garten Box 208200 New Haven, Connecticut 06520-8200  Age: 56	Trustee and Audit Committee Member	Since 1998 <sup>2</sup>	Dean of Yale School of Management and William S. Beinecke Professor in the Practice of International Trade and Finance; Undersecretary of Commerce for International Trade from November 1993 to October 1995; Professor at Columbia University from September 1992 to November 1993	53	Director of Aetna, Inc.; Director of Calpine Energy Corporation; Director of CarMax Group (used car dealers)

<sup>1</sup> Each Trustee and Officer serves until his or her respective successor has been duly elected and qualified.

<sup>2</sup> Mr. Garten was initially appointed as a Trustee on February 6, 1998. He resigned as Trustee on February 3, 2000 and was subsequently reappointed on December 21, 2000.



**Credit Suisse Trust — Global Post-Venture Capital Portfolio  
Information Concerning Trustees and Officers (Unaudited) (continued)**

<u>Name, Address and Age</u>	<u>Position(s) Held with Trust</u>	<u>Term of Office' and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Portfolios in Fund Complex Overseen by Trustee</u>	<u>Other Directorships Held by Trustee</u>
<b>Independent Trustees—(continued)</b>					
Peter F. Krogh 301 ICC Georgetown University Washington, DC 20057  Age: 65	Trustee and Audit Committee Member	Since 2001	Dean Emeritus and Distinguished Professor of International Affairs at the Edmund A. Walsh School of Foreign Service, Georgetown University; Moderator of PBS foreign affairs television series	53	Member of the Board of The Carlisle Companies Inc.; Member of Selection Committee for Truman Scholars and Henry Luce Scholars; Senior Associate of Center for Strategic and International Studies; Trustee of numerous world affairs organizations
James S. Paskan, Jr. c/o Credit Suisse Asset Management, LLC. 466 Lexington Avenue New York, New York 10017-3140  Age: 71	Trustee and Audit Committee Member	Since 1999	Currently retired; President and Chief Operating Officer of National InterGroup, Inc. (holding company) from April 1989 to March 1991; Chairman of Permian Oil Co. from April 1989 to March 1991	55	Director of Education Management Corp.

## Credit Suisse Trust — Global Post-Venture Capital Portfolio Information Concerning Trustees and Officers (Unaudited) (continued)

Name, Address and Age	Position(s) Held with Trust	Term of Office <sup>1</sup> and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
<b>Independent Trustees—(concluded)</b>					
Steven N. Rappaport Lehigh Court, LLC 40 East 52nd Street New York, New York 10022  Age: 54	Trustee and Audit Committee Chairman	Since 1999	Partner of Lehigh Court, LLC since July 2002; President of Sungard Securities Finance, Inc. from 2001 to July 2002; President of Loanet, Inc. (on-line accounting service) from 1995 to 2001; Director, President, North American Operations, and former Executive Vice President from 1992 to 1993 of Worldwide Operations of Metallurg Inc. (manufacturer of specialty metals and alloys); Executive Vice President, Telerate, Inc. (provider of real-time information to the capital markets) from 1987 to 1992; Partner in the law firm of Hartman & Craven until 1987	54	None
<b>Interested Trustee</b>					
William W. Priest <sup>3</sup> Steinberg Priest & Sloane Capital Management 12 East 49th Street 12th Floor New York, New York 10017  Age: 61	Trustee	Since 1999	Senior Partner and Fund Manager, Steinberg Priest & Sloane Capital March Management since 2001; Chairman and Managing Director of CSAM from 2000 to February 2001, Chief Executive Officer and Managing Director of CSAM from 1990 to 2000	60	None

<sup>3</sup> Mr. Priest is a Trustee who is an “interested person” of the Trust as defined in the 1940 Act, because he provides consulting services to CSAM.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio  
Information Concerning Trustees and Officers (Unaudited) (continued)**

<u>Name, Address and Age</u>	<u>Position(s) Held with Trust</u>	<u>Term of Office' and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>
<b>Officers</b>			
<p>Laurence R. Smith Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140</p> <p>Age: 44</p>	Chairman	Since 2002	Managing Director and Global Chief Investment Officer of CSAM; Associated with JP Morgan Investment Management from 1981 to 1999; Officer of other Credit Suisse Funds
<p>Hal Liebes, Esq. Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140</p> <p>Age: 38</p>	Vice President and Secretary	Since 1999	Managing Director and Global General Counsel of CSAM; Associated with Lehman Brothers, Inc. from 1996 to 1997; Associated with CSAM from 1995 to 1996; Associated with CS First Boston Investment Management from 1994 to 1995; Associated with Division of Enforcement, U.S. Securities and Exchange Commission from 1991 to 1994; Officer of other Credit Suisse Funds
<p>Michael A. Pignataro Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140</p> <p>Age: 43</p>	Treasurer and Chief Financial Officer	Since 1999	Director and Director of Fund Administration of CSAM; Associated with CSAM since 1984; Officer of other Credit Suisse Funds
<p>Gregory N. Bressler, Esq. Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140</p> <p>Age: 36</p>	Assistant Secretary	Since 2000	Director and Deputy General Counsel; Associated with CSAM since January 2000; Associated with the law firm of Swidler Berlin Shereff Friedman LLP from 1996 to 2000; Officer of other Credit Suisse Funds
<p>Kimiko T. Fields, Esq. Credit Suisse Asset Management, LLC 466 Lexington Avenue 10017-3140</p> <p>Age: 39</p>	Assistant Secretary	Since 2002	Vice President and Legal Counsel; Associated with CSAM since January 1998; Officer of other Credit Suisse Funds

**Credit Suisse Trust — Global Post-Venture Capital Portfolio  
Information Concerning Trustees and Officers (Unaudited) (concluded)**

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<u>Name, Address and Age</u>	<u>Position(s) Held with Trust</u>	<u>Term of Office<sup>1</sup> and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>
<b>Officers—(concluded)</b>			
Rocco A. Del Guercio Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140	Assistant Treasurer	Since 1999	Vice President and Administrative Officer of CSAM; Associated with CSAM since June 1996; Assistant Treasurer, Bankers Trust Co. — Fund Administration from March 1994 to June 1996; Mutual Fund Accounting Supervisor, Dreyfus Corporation from April 1987 to March 1994; Officer of other Credit Suisse Funds
Age: 39			
Joseph Parascondola Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140	Assistant Treasurer	Since 2000	Assistant Vice President — Fund Administration of CSAM since April 2000; Assistant Vice President, Deutsche Asset Management from January 1999 to April 2000; Assistant Vice President, Weiss, Peck & Greer LLC from November 1995 to December 1998; Officer of other Credit Suisse Funds
Age: 39			
Robert M. Rizza Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140	Assistant Treasurer	Since 2002	Assistant Vice President of CSAM since January 2001; Administrative Officer of CSAM from March 1998 to December 2000; Assistant Treasurer of Bankers Trust Co. from April 1994 to March 1998; Officer of other Credit Suisse Funds
Age: 37			

The Statement of Additional Information includes additional information about the Trustees and is available, without charge, upon request, by calling 800-222-8977.

## Credit Suisse Trust — Global Post-Venture Portfolio Shareholder Meeting Results (Unaudited)

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A special meeting of shareholders of the Portfolio was held at 466 Lexington Avenue, 16th Floor, New York, NY 10017 on May 1, 2002. The following matters were voted upon by the shareholders of the Portfolio and the results are presented below. Shares delivered not voted are included on the total for each proposal.

To approve a Sub-Investment Advisory Agreement for the Portfolio, Credit Suisse Asset Management, LLC and Credit Suisse Asset Management (U.K.) Limited (“CSAM U.K.”):

	<u>Shares</u>	<u>% of Total Shares Outstanding</u>	<u>% of Total Shares Voted</u>
For	9,812,752.40	89.32%	90.27%
Against	370,145.78	3.37%	3.41%
Abstain	687,358.74	6.26%	6.32%

To approve a Sub-Investment Advisory Agreement for the Portfolio, Credit Suisse Asset Management, LLC and Credit Suisse Asset Management (Japan) Limited (“CSAM Japan”):

	<u>Shares</u>	<u>% of Total Shares Outstanding</u>	<u>% of Total Shares Voted</u>
For	9,784,979.41	89.07%	90.02%
Against	403,669.32	3.68%	3.71%
Abstain	681,608.19	6.20%	6.27%

A special meeting of shareholders of the Portfolio was held at 466 Lexington Avenue, 16th Floor, New York, NY 10017 on October 9, 2002. The following matter was voted upon by the shareholders of the Portfolio and the results are presented below. Shares delivered not voted are included on the total for each proposal.

To approve a Sub-Investment Advisory Agreement for the Portfolio, Credit Suisse Asset Management, LLC and Credit Suisse Asset Management (Australia) Limited (“CSAM Australia”):

	<u>Shares</u>	<u>% of Total Shares Outstanding</u>	<u>% of Total Shares Voted</u>
For	8,360,893.54	85.80%	89.25%
Against	322,021.00	3.31%	3.44%
Abstain	685,409.54	7.03%	7.32%

P.O. Box 55030, Boston, MA 02205-5030  
800-222-8977 ■ [www.CreditSuisseFunds.com](http://www.CreditSuisseFunds.com)

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TRGPV-2-1202

# Dreyfus Investment Portfolios, MidCap Stock Portfolio

**ANNUAL REPORT** December 31, 2002



YOU, YOUR ADVISOR AND  
**Dreyfus**  
A MELLON FINANCIAL COMPANY™

The views expressed in this report reflect those of the portfolio manager only through the end of the period covered and do not necessarily represent the views of Dreyfus or any other person in the Dreyfus organization. Any such views are subject to change at any time based upon market or other conditions and Dreyfus disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Dreyfus portfolio are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Dreyfus portfolio.

Not FDIC-Insured • Not Bank-Guaranteed • May Lose Value



# Contents

## THE PORTFOLIO

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- 2** Letter from the Chairman
- 3** Discussion of Performance
- 6** Portfolio Performance
- 8** Statement of Investments
- 14** Statement of Assets and Liabilities
- 15** Statement of Operations
- 16** Statement of Changes in Net Assets
- 18** Financial Highlights
- 20** Notes to Financial Statements
- 26** Report of Independent Auditors
- 27** Important Tax Information
- 28** Board Members Information
- 30** Officers of the Fund

## FOR MORE INFORMATION

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Back Cover



## LETTER FROM THE CHAIRMAN

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Dear Shareholder:

We present this annual report for Dreyfus Investment Portfolios, MidCap Stock Portfolio, covering the 12-month period from January 1, 2002 through December 31, 2002. Inside, you'll find valuable information about how the portfolio was managed during the reporting period, including a discussion with the portfolio manager, John O'Toole.

In 2002, investors witnessed the third consecutive year of negative returns for the broad U.S. stock markets. Virtually every industry group, investment style and capitalization range, including midcap stocks, suffered losses in 2002, leaving investors few shelters from the storm. However, the market's disappointing start to the 21st century may be good news for today's growth-oriented investors as, historically, growth opportunities have generally been greatest when the economic news is bad, prices are down and investors shun stocks.

At the same time, no one can say for sure what direction the markets will take or which investment style will prevail, which is why we continue to encourage you to maintain a long-term perspective and an ongoing dialogue with your financial advisor. Investors with the patience and discipline to weather today's market uncertainty may reap the potential benefits of the better economic times that we believe lie ahead.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter  
Chairman and Chief Executive Officer  
The Dreyfus Corporation  
January 15, 2003



## DISCUSSION OF PERFORMANCE

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John O'Toole, Portfolio Manager

### **How did Dreyfus Investment Portfolios, MidCap Stock Portfolio perform relative to its benchmark?**

For the 12-month period ended December 31, 2002, the portfolio's Initial shares produced a -12.49% total return and its Service shares produced a -12.64% total return.<sup>1</sup> In comparison, the Standard & Poor's MidCap 400 Index (the "Index"), the portfolio's benchmark, returned -14.51% for the same period.<sup>2</sup>

Most major stock market indices declined for the third year in a row. The midcap sector was no exception, although its decline was less pronounced than that of large-cap stocks. The portfolio produced higher returns than its benchmark, primarily because of its modest bias toward value-oriented stocks over growth stocks.

### **What is the portfolio's investment approach?**

The portfolio invests primarily in a blend of growth and value stocks of mid-capitalization companies chosen through a disciplined process that combines computer modeling techniques, fundamental analysis and risk management.

The quantitatively driven valuation process identifies and ranks approximately 2,500 midcap stocks as attractive, neutral or unattractive investments, based upon more than a dozen different valuation inputs. Those inputs, which we believe can have an important influence on stock returns, include, among other things, earnings estimates, profit margins and growth in cash flow. We establish weightings for each factor based upon our analysis of which factors are being rewarded by investors and make adjustments along the way for the uniqueness of various industries and economic sectors. For example, if the equity markets were rewarding companies with strong growth in cash flow, then we would add more weight to our growth-in-cash-flow factor.

Next, our investment management team conducts fundamental research on each stock, which ultimately results in the buy-and-sell recommendations. We seek to have the portfolio own the best-performing stocks within each economic sector of the midcap market. By maintaining an economic sector-neutral stance, we allow individual stock selection to drive the portfolio's performance.

**What other factors influenced the portfolio's performance?**

For most of the reporting period, investors avoided growth stocks because, in a struggling economy, they weren't willing to pay a premium for future expectations of earnings growth. Instead, investors preferred value companies where earnings expectations and valuations were more modest. As a result, the portfolio's focus on value contributed positively to its performance relative to its benchmark, which does not favor a specific investment style.

For example, we tended to avoid high-growth biotechnology stocks, investing instead in slower growing health insurance and generic pharmaceutical companies. Health insurers such as PacifiCare Health Systems and Oxford Health Plans experienced a strong pricing environment in 2002, bolstering profitability. Mylan Laboratories, a generic drug manufacturer, benefited from the public's desire to control health care costs with cheaper generics rather than brand name products. Midsized regional banks also saw improving results during the year by generally avoiding loans to borrowers that later declared bankruptcy, while lower interest rates reduced their deposit costs. Other strong performers included Garmin, a worldwide provider of navigation systems, most of which are enabled by global positioning system (GPS) technology, and Apollo Group, which through the University of Phoenix provides higher education to working adults.

The portfolio's results were negatively affected by economically sensitive companies in areas such as specialty chemicals and industrial manufacturers.

In addition, companies that struggled with credit problems or were associated with bankrupt customers performed poorly.

### **What is the portfolio's current strategy?**

We continue to remain focused on value stocks. As of December 31, 2002, we have taken notice that growth stocks generally performed better than value stocks during the fourth quarter of 2002 and, as a result, we may begin to shift the portfolio modestly towards growth companies to reflect what we believe to be attractive prices in that area if such a trend should continue.

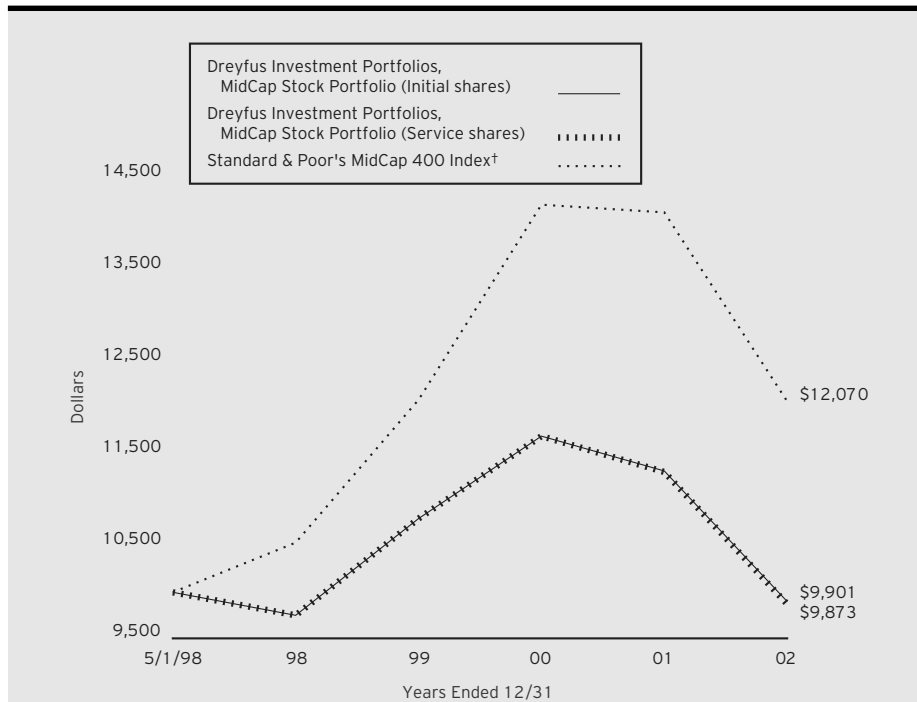
For the stock market to recover significantly, corporate capital spending must increase, particularly since consumer spending is showing signs of abating after a strong 2002. The last time capital spending boomed was in the late 1990s as companies readied for Y2K. More than three years have passed, suggesting that a new round of spending by the nation's corporations is more than past due as equipment becomes obsolete. We have started to position the portfolio to benefit from such a resumption of capital spending.

January 15, 2003

<sup>1</sup> 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, portfolio shares may be worth more or less than their original cost. The portfolio'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. Return figures provided reflect the absorption of portfolio expenses by The Dreyfus Corporation pursuant to an agreement in effect through December 31, 2003, at which time it may be extended, terminated or modified. Had these expenses not been absorbed, the portfolio's returns would have been lower.

<sup>2</sup> SOURCE: LIPPER INC. — Reflects reinvestment of dividends and, where applicable, capital gain distributions. The Standard & Poor's MidCap 400 Index is a widely accepted, unmanaged total return index measuring the performance of the midsize company segment of the U.S. market.

## PORTFOLIO PERFORMANCE



Comparison of change in value of \$10,000 investment in Dreyfus Investment Portfolios, MidCap Stock Portfolio Initial shares and Service shares and the Standard & Poor's MidCap 400 Index

### Average Annual Total Returns as of 12/31/02

	Inception Date	1 Year	From Inception
<b>Initial shares</b>	<b>5/1/98</b>	<b>(12.49)%</b>	<b>(0.21)%</b>
<b>Service shares</b>	<b>5/1/98</b>	<b>(12.64)%</b>	<b>(0.27)%</b>

*The data for Service shares primarily represents the results of Initial shares. Actual Service shares' average annual total return and hypothetical growth results would have been lower. See notes below.*

† Source: Lipper Inc.

*Past performance is not predictive of future performance. The portfolio's performance shown in the graph and table does not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares.*

**The portfolio'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 graph compares a \$10,000 investment made in Initial and Service shares of Dreyfus Investment Portfolios, MidCap Stock Portfolio on 5/1/98 (inception date of Initial shares) to a \$10,000 investment made in the Standard & Poor's MidCap 400 Index (the "Index") on that date.*

*The portfolio's Initial shares are not subject to a Rule 12b-1 fee. The portfolio's Service shares are subject to a 0.25% annual Rule 12b-1 fee. The performance figures for Service shares reflect the performance of the portfolio's Initial shares from their inception date through December 30, 2000, and the performance of the portfolio's Service shares from December 31, 2000 (inception date of Service shares) to December 31, 2002 (blended performance figures). The performance figures for each share class reflect certain expense reimbursements, without which the performance of each share class would have been lower. In addition, the blended performance figures have not been adjusted to reflect the higher operating expenses of the Service shares. If these expenses had been reflected, the blended performance figures would have been lower. All dividends and capital gain distributions are reinvested.*

*The portfolio's performance shown in the line graph takes into account all applicable portfolio fees and expenses (after any expense reimbursements). The Index is a widely accepted, unmanaged total return index measuring the performance of the midsize company segment of the U.S. stock market and does not take into account charges, fees and other expenses. Further information relating to portfolio performance, including expense reimbursements, if applicable, is contained in the Financial Highlights section of the prospectus and elsewhere in this report.*

## STATEMENT OF INVESTMENTS

December 31, 2002

<b>Common Stocks—97.8%</b>	Shares	Value (\$)
<b>Consumer Cyclical—12.5%</b>		
Aztar	41,700 <sup>a</sup>	595,476
Bob Evans Farms	48,900	1,141,815
Borders Group	72,800 <sup>a</sup>	1,172,080
Brinker International	56,400 <sup>a</sup>	1,818,900
Furniture Brands International	34,400 <sup>a</sup>	820,440
GTECH Holdings	33,500 <sup>a</sup>	933,310
Gentex	56,000 <sup>a</sup>	1,771,840
International Game Technology	13,300 <sup>a</sup>	1,009,736
J. C. Penney (Holding Co.)	40,500 <sup>b</sup>	931,905
Jones Apparel Group	38,200 <sup>a</sup>	1,353,808
Magna International, Cl. A	16,200	909,630
Michaels Stores	67,900 <sup>a</sup>	2,125,270
Mohawk Industries	38,200 <sup>a</sup>	2,175,490
Neiman Marcus Group, Cl. A	29,000 <sup>a</sup>	881,310
Park Place Entertainment	183,900 <sup>a</sup>	1,544,760
Pier 1 Imports	59,300	1,122,549
Polaris Industries	23,600	1,382,960
Ross Stores	59,800	2,534,922
Staples	64,000 <sup>a</sup>	1,171,200
Whole Foods Market	29,500 <sup>a</sup>	1,555,535
Williams-Sonoma	59,500 <sup>a,b</sup>	1,615,425
Zale	33,100 <sup>a</sup>	1,055,890
		<b>29,624,251</b>
<b>Consumer Staples—4.2%</b>		
Alberto-Culver, Cl. B	23,600	1,189,440
Bunge	51,200	1,231,872
Dial	51,200	1,042,944
Dole Food	51,100	1,664,838
Hershey Foods	21,600	1,456,704
J. M. Smucker	32,400	1,289,844
Pepsi Bottling Group	29,100	747,870
Sensient Technologies	58,000	1,303,260
		<b>9,926,772</b>
<b>Energy Related—9.8%</b>		
AGL Resources	51,100 <sup>b</sup>	1,241,730
BJ Services	31,000 <sup>a</sup>	1,001,610



<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Energy Related (continued)</b>		
Black Hills	33,100	877,812
Devon Energy	19,900	913,410
ENSCO International	56,800	1,672,760
Energen	33,100	963,210
Equitable Resources	43,600	1,527,744
FMC Technologies	46,900 <sup>a</sup>	958,167
Helmerich & Payne	50,100	1,398,291
Houston Exploration	44,700 <sup>a</sup>	1,367,820
MDU Resources Group	25,500	658,155
Murphy Oil	30,600	1,311,210
Patina Oil & Gas	25,000	791,250
Questar	65,600	1,824,992
Tidewater	54,600	1,698,060
Valero Energy	45,500	1,680,770
Varco International	102,500 <sup>a</sup>	1,783,500
XTO Energy	61,700	1,523,990
		<b>23,194,481</b>
<b>Health Care—12.3%</b>		
Apogent Technologies	78,300 <sup>a</sup>	1,628,640
Apria Healthcare Group	46,100 <sup>a</sup>	1,025,264
Beckman Coulter	31,100	918,072
Biosite	42,100 <sup>a,b</sup>	1,432,242
Caremark Rx	76,200 <sup>a</sup>	1,238,250
Charles River Laboratories International	31,200 <sup>a</sup>	1,200,576
Chiron	31,400 <sup>a</sup>	1,180,640
Coventry Health Care	42,200 <sup>a</sup>	1,225,066
First Health Group	66,100 <sup>a</sup>	1,609,535
Gilead Sciences	97,600 <sup>a</sup>	3,318,400
Health Net	85,600 <sup>a</sup>	2,259,840
Henry Schein	36,500 <sup>a</sup>	1,642,500
Hillenbrand Industries	23,600	1,140,116
ICN Pharmaceuticals	43,600	475,676
Millipore	27,500 <sup>a</sup>	935,000
Mylan Laboratories	69,900	2,439,510
Oxford Health Plans	57,500 <sup>a,b</sup>	2,095,875
STERIS	39,800 <sup>a</sup>	965,150

## STATEMENT OF INVESTMENTS (continued)

<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Health Care (continued)</b>		
Sunrise Assisted Living	33,100 a,b	823,859
Varian Medical Systems	29,700 a	1,473,120
		<b>29,027,331</b>
<b>Interest Sensitive—19.5%</b>		
Aetna	29,600	1,217,152
Associated Banc-Corp	68,100	2,311,314
Astoria Financial	69,300	1,881,495
Banknorth Group	97,700	2,208,020
Bear Stearns Cos.	22,400	1,330,560
Capital One Financial	25,700 b	763,804
City National	51,100	2,247,889
Commerce Bancorp	38,800	1,675,772
Compass Bancshares	72,500	2,267,075
Countrywide Financial	17,600	909,040
Dime Bancorp (Warrants)	19,900 a	2,408
Doral Financial	51,900	1,484,340
FTI Consulting	28,600 a	1,148,290
Federated Investors, Cl. B	46,000	1,167,020
First Tennessee National	39,900 b	1,434,006
First Virginia Banks	47,300	1,760,979
GreenPoint Financial	60,200	2,719,836
Hilb, Rogal & Hamilton	40,100	1,640,090
IPC Holdings	23,200 a	731,728
John Nuveen, Cl. A	44,600	1,130,610
Legg Mason	35,800 b	1,737,732
M&T Bank	14,600	1,158,510
MBIA	23,800	1,043,868
Marshall & Ilsley	61,900	1,694,822
New York Community Bancorp	49,700	1,435,336
North Fork Bancorporation	31,300	1,056,062
Old Republic International	52,400	1,467,200
PMI Group	65,700	1,973,628
Protective Life	36,400	1,001,728
Radian Group	54,700	2,032,105
RenaissanceRe Holdings	17,500	693,000
Wintrust Financial	30,200	945,864
		<b>46,271,283</b>

<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Internet Related—8%</b>		
Expedia, Cl. A	18,200 <sup>a</sup>	1,218,130
Overture Services	27,400 <sup>a</sup>	748,294
		<b>1,966,424</b>
<b>Producer Goods—11.9%</b>		
American Power Conversion	43,300 <sup>a</sup>	655,995
Avery Dennison	22,900	1,398,732
Bemis	25,500	1,265,565
CSX	39,400	1,115,414
Cooper Industries, Cl. A	25,900	944,055
D. R. Horton	89,300	1,549,355
Eastman Chemical	25,500	937,635
Energizer Holdings	67,300 <sup>a</sup>	1,877,670
Harsco	36,500	1,163,985
Hughes Supply	26,000	710,320
ITT Industries	10,800	655,452
J.B. Hunt Transport Services	31,100 <sup>a</sup>	911,230
Lennar	39,300	2,027,880
Lubrizol	52,000	1,586,000
PPG Industries	17,100	857,565
Pactiv	66,100 <sup>a</sup>	1,444,946
Praxair	18,300	1,057,191
Precision Castparts	56,300	1,365,275
RPM International	105,500	1,612,040
Rayonier	28,800	1,303,200
Teleflex	29,000	1,243,810
Valspar	20,200	892,436
York International	60,200	1,539,314
		<b>28,115,065</b>
<b>Services—9.9%</b>		
Affiliated Computer Services, Cl. A	51,400 <sup>a,b</sup>	2,706,210
Apollo Group, Cl. A	29,000 <sup>a,b</sup>	1,276,000
DST Systems	39,800 <sup>a</sup>	1,414,890
Deluxe	30,800	1,296,680
Education Management	23,600 <sup>a</sup>	887,360
Entercom Communications	32,900 <sup>a</sup>	1,543,668
Jack Henry & Associates	47,300	569,492
Lee Enterprises	36,000	1,206,720

## STATEMENT OF INVESTMENTS (continued)

<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Services (continued)</b>		
Moody's	15,300	631,737
Pharmaceutical Product Development	39,800 <sup>a</sup>	1,164,946
Rent-A-Center	18,200 <sup>a</sup>	909,090
Republic Services	100,200 <sup>a</sup>	2,102,196
SunGard Data Systems	64,700 <sup>a</sup>	1,524,332
Valassis Communications	36,500 <sup>a</sup>	1,074,195
Washington Post, Cl. B	3,700	2,730,600
Westwood One	63,700 <sup>a</sup>	2,379,832
		<b>23,417,948</b>
<b>Technology—12.1%</b>		
Adobe Systems	34,900	869,359
Advanced Fibre Communications	84,900 <sup>a</sup>	1,416,132
Black Box	19,200	860,160
Cadence Design Systems	99,900 <sup>a</sup>	1,177,821
Cree	69,300 <sup>a,b</sup>	1,133,055
Diebold	49,000	2,019,780
Electronic Arts	24,400 <sup>a</sup>	1,214,388
FLIR Systems	26,200 <sup>a</sup>	1,278,560
Garmin	35,200 <sup>a</sup>	1,031,360
Integrated Circuit Systems	41,900 <sup>a</sup>	764,675
L-3 Communications Holdings	39,100 <sup>a,b</sup>	1,755,981
Lexmark International	12,700 <sup>a</sup>	768,350
Microchip Technology	112,400	2,748,180
Plantronics	29,700 <sup>a</sup>	449,361
QLogic	35,300 <sup>a</sup>	1,218,203
Reynolds & Reynolds, Cl. A	49,500	1,260,765
SanDisk	66,700 <sup>a</sup>	1,354,010
Semtech	49,000 <sup>a</sup>	535,080
Storage Technology	69,300 <sup>a</sup>	1,484,406
Sybase	72,800 <sup>a</sup>	975,520
Symantec	75,500 <sup>a</sup>	3,053,975
Varian Semiconductor Equipment Associates	22,500 <sup>a</sup>	534,622
Xilinx	32,300 <sup>a</sup>	665,380
		<b>28,569,123</b>

<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Utilities—4.8%</b>		
Alliant Energy	52,900	875,495
Energy East	72,100	1,592,689
Entergy	32,700	1,490,793
FirstEnergy	21,300	702,261
IDACORP	43,600	1,082,588
Level 3 Communications	109,600 <sup>a,b</sup>	537,040
Pinnacle West Capital	18,200	620,438
SCANA	65,600	2,030,976
Wisconsin Energy	100,300	2,527,560
		<b>11,459,840</b>
<b>Total Common Stocks</b> (cost \$234,091,011)		<b>231,572,518</b>
	Principal Amount (\$)	Value (\$)
<b>Short-Term Investments—2.4%</b>		
<b>Repurchase Agreement;</b>		
Greenwich Capital Markets, Tri-Party Repurchase Agreement, 1.05%, dated 12/31/2002, due 1/2/2003, in the amount of \$5,645,329 (fully collateralized by \$3,365,000 U.S. Treasury Bonds, 11.25%, 2/15/2015, value \$5,761,511) (cost \$5,645,000)		
	5,645,000	<b>5,645,000</b>
<b>Investment of Cash Collateral for Securities Loaned—4.5%</b>		
	Shares	Value (\$)
<b>Registered Investment Company;</b>		
Dreyfus Institutional Preferred Money Market Fund (cost \$10,613,628)		
	10,613,628	<b>10,613,628</b>
<b>Total Investments</b> (cost \$250,349,639)	<b>104.7%</b>	<b>247,831,146</b>
<b>Liabilities, Less Cash and Receivables</b>	<b>(4.7%)</b>	<b>(11,124,217)</b>
<b>Net Assets</b>	<b>100.0%</b>	<b>236,706,929</b>

<sup>a</sup> Non-income producing.

<sup>b</sup> All or a portion of these securities are on loan. At December 31, 2002, the total market value of the portfolio's securities on loan is \$10,199,886 and the total market value of the collateral held by the portfolio is \$10,613,628. See notes to financial statements.

## STATEMENT OF ASSETS AND LIABILITIES

December 31, 2002

	Cost	Value
<b>Assets (\$):</b>		
Investments in securities—See Statement of Investments—Note 1 (b) (including securities loaned valued at \$10,199,886)	250,349,639	247,831,146
Cash		51,990
Receivable for investment securities sold		3,932,839
Dividends and interest receivable		127,225
Prepaid expenses		1,739
		<b>251,944,939</b>
<b>Liabilities (\$):</b>		
Due to The Dreyfus Corporation and affiliates		162,565
Liability for securities loaned—Note 1 (b)		10,613,628
Payable for investment securities purchased		3,941,656
Payable for shares of Beneficial Interest redeemed		450,325
Accrued expenses		69,836
		<b>15,238,010</b>
<b>Net Assets (\$)</b>		<b>236,706,929</b>
<b>Composition of Net Assets (\$):</b>		
Paid-in capital		272,286,237
Accumulated undistributed investment income—net		19,570
Accumulated net realized gain (loss) on investments		(33,080,385)
Accumulated net unrealized appreciation (depreciation) on investments		(2,518,493)
<b>Net Assets (\$)</b>		<b>236,706,929</b>
<b>Net Asset Value Per Share</b>		
	Initial Shares	Service Shares
Net Assets (\$)	218,386,985	18,319,944
Shares Outstanding	18,142,725	1,524,752
<b>Net Asset Value Per Share (\$)</b>	<b>12.04</b>	<b>12.02</b>

*See notes to financial statements.*

## STATEMENT OF OPERATIONS

Year Ended December 31, 2002

<b>Investment Income (\$):</b>	
<b>Income:</b>	
Cash dividends (net of \$3,845 foreign taxes withheld at source)	2,469,498
Interest	145,043
Income from securities lending	100,792
<b>Total Income</b>	<b>2,715,333</b>
<b>Expenses:</b>	
Investment advisory fee—Note 3(a)	1,748,357
Prospectus and shareholders' reports	93,760
Professional fees	61,940
Custodian fees—Note 3(b)	50,662
Distribution fees—Note 3(b)	38,380
Shareholder servicing costs—Note 3(b)	24,926
Trustees' fees and expenses—Note 3(c)	1,857
<b>Total Expenses</b>	<b>2,019,882</b>
Less—waiver of fees due to undertaking—Note 3(a)	(15,122)
<b>Net Expenses</b>	<b>2,004,760</b>
<b>Investment Income—Net</b>	<b>710,573</b>
<b>Realized and Unrealized Gain (Loss) on Investments—Note 4 (\$):</b>	
Net realized gain (loss) on investments	(23,480,437)
Net unrealized appreciation (depreciation) on investments	(13,210,329)
<b>Net Realized and Unrealized Gain (Loss) on Investments</b>	<b>(36,690,766)</b>
<b>Net (Decrease) in Net Assets Resulting from Operations</b>	<b>(35,980,193)</b>

See notes to financial statements.

## STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2002	2001
<b>Operations (\$):</b>		
Investment income–net	710,573	294,464
Net realized gain (loss) on investments	(23,480,437)	(9,119,810)
Net unrealized appreciation (depreciation) on investments	(13,210,329)	8,706,299
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>(35,980,193)</b>	<b>(119,047)</b>
<b>Dividends to Shareholders from (\$):</b>		
Investment income–net:		
Initial shares	(657,623)	(291,394)
Service shares	(41,127)	(11,519)
<b>Total Dividends</b>	<b>(698,750)</b>	<b>(302,913)</b>
<b>Beneficial Interest Transactions (\$):</b>		
Net proceeds from shares sold:		
Initial shares	101,318,850	116,445,355
Service shares	13,400,255	11,203,275
Dividends reinvested:		
Initial shares	657,623	291,394
Service shares	41,127	11,519
Cost of shares redeemed:		
Initial shares	(30,248,497)	(11,777,128)
Service shares	(2,575,825)	(1,744,659)
<b>Increase (Decrease) in Net Assets from Beneficial Interest Transactions</b>	<b>82,593,533</b>	<b>114,429,756</b>
<b>Total Increase (Decrease) in Net Assets</b>	<b>45,914,590</b>	<b>114,007,796</b>
<b>Net Assets (\$):</b>		
Beginning of Period	190,792,339	76,784,543
<b>End of Period</b>	<b>236,706,929</b>	<b>190,792,339</b>
Undistributed investment income–net	19,570	3,241



	Year Ended December 31,	
	2002	2001
<b>Capital Share Transactions:</b>		
<b>Initial Shares</b>		
Shares sold	7,374,719	8,633,138
Shares issued for dividends reinvested	54,017	21,652
Shares redeemed	(2,404,341)	(910,014)
<b>Net Increase (Decrease) in Shares Outstanding</b>	<b>5,024,395</b>	<b>7,744,776</b>
<b>Service Shares</b>		
Shares sold	1,006,141	842,364
Shares issued for dividends reinvested	3,385	856
Shares redeemed	(193,139)	(134,890)
<b>Net Increase (Decrease) in Shares Outstanding</b>	<b>816,387</b>	<b>708,330</b>

*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 portfolio share. Total return shows how much your investment in the portfolio would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. These figures have been derived from the portfolio's financial statements.

Initial Shares	Year Ended December 31,				
	2002	2001	2000	1999	1998 <sup>a</sup>
<b>Per Share Data (\$):</b>					
Net asset value, beginning of period	13.80	14.29	13.44	12.16	12.50
Investment Operations:					
Investment income—net	.04 <sup>b</sup>	.03 <sup>b</sup>	.05 <sup>b</sup>	.03 <sup>b</sup>	.02
Net realized and unrealized					
gain (loss) on investments	(1.76)	(.50)	1.05	1.28	(.34)
Total from Investment Operations	(1.72)	(.47)	1.10	1.31	(.32)
Distributions:					
Dividends from investment					
income—net	(.04)	(.02)	(.03)	(.03)	(.02)
Dividends from net realized					
gain on investments	—	—	(.13)	—	—
Dividends in excess of net					
realized gain on investments	—	—	(.09)	—	—
Total Distributions	(.04)	(.02)	(.25)	(.03)	(.02)
Net asset value, end of period	12.04	13.80	14.29	13.44	12.16
<b>Total Return (%)</b>	(12.49)	(3.26)	8.28	10.82	(2.53) <sup>c</sup>
<b>Ratios/Supplemental Data (%):</b>					
Ratio of expenses to average net assets	.85	.89	.98	.97	.67 <sup>c</sup>
Ratio of net investment income to average net assets	.32	.24	.34	.26	.18 <sup>c</sup>
Decrease reflected in above					
expense ratios due to undertakings by The Dreyfus Corporation	—	—	.06	.49	.60 <sup>c</sup>
Portfolio Turnover Rate	69.15	76.37	102.89	77.73	75.74 <sup>c</sup>
Net Assets, end of period (\$ x 1,000)	218,387	181,028	76,784	15,563	10,506

<sup>a</sup> From May 1, 1998 (commencement of operations) to December 31, 1998.

<sup>b</sup> Based on average shares outstanding at each month end.

<sup>c</sup> Not annualized.

See notes to financial statements.

<b>Service Shares</b>	Year Ended December 31,		
	2002	2001	2000 <sup>a</sup>
<b>Per Share Data (\$):</b>			
Net asset value, beginning of period	13.78	14.29	14.29
Investment Operations:			
Investment income—net	.02 <sup>b</sup>	.01 <sup>b</sup>	—
Net realized and unrealized gain (loss) on investments	(1.75)	(.50)	—
Total from Investment Operations	(1.73)	(.49)	—
Distributions:			
Dividends from investment income—net	(.03)	(.02)	—
Net asset value, end of period	12.02	13.78	14.29
<b>Total Return (%)</b>	<b>(12.64)</b>	<b>(3.36)</b>	<b>—</b>
<b>Ratios/Supplemental Data (%):</b>			
Ratio of expenses to average net assets	1.00	1.00	—
Ratio of net investment income to average net assets	.15	.07	—
Decrease reflected in above expense ratios due to undertaking by The Dreyfus Corporation	.10	.17	—
Portfolio Turnover Rate	69.15	76.37	102.89
Net Assets, end of period (\$ x 1,000)	18,320	9,764	1

<sup>a</sup> The portfolio commenced offering Service shares on December 31, 2000.

<sup>b</sup> Based on average shares outstanding at each month end.

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 1—Significant Accounting Policies:**

Dreyfus Investment Portfolios (the “fund”) is registered under the Investment Company Act of 1940, as amended (the “Act”), as an open-end management investment company, operating as a series company currently offering twelve series, including the MidCap Stock Portfolio (the “portfolio”). The portfolio is only offered to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The portfolio is a diversified series. The portfolio’s investment objective is to provide 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”) serves as the portfolio’s investment adviser. The Manager is a direct subsidiary of Mellon Bank, N.A. (“Mellon”), which is a wholly-owned subsidiary of Mellon Financial Corporation.

Dreyfus Service Corporation (the “Distributor”), a wholly-owned subsidiary of the Manager, is the distributor of the portfolio’s shares, which are sold without a sales charge. The portfolio 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 and certain voting rights.

The fund 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 portfolio’s financial statements are prepared in accordance with accounting principles generally accepted in the United States, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

**(a) Portfolio valuation:** Investments in securities (including options and financial futures) are valued at the last sales price on the securities

exchange on which such securities are primarily traded or at the last sales price on the national securities market. 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. Bid price is used when no asked price is available. Securities for which there are no such valuations are valued at fair value as determined in good faith under the direction of the Board of Trustees.

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gain and loss 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, amortization of discount and premium on investments, is recognized on the accrual basis. Under the terms of the custody agreement, the portfolio received net earnings credits of \$594 during the period ended December 31, 2002 based on available cash balances left on deposit. Income earned under this arrangement is included in interest income.

The portfolio may lend securities to qualified institutions. At origination, all loans are secured by cash 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 will be maintained at all times. Cash collateral is invested in certain money market mutual funds managed by the Manager as shown in the portfolio's Statement of Investments. The portfolio will be entitled to receive all income on securities loaned, in addition to income earned as a result of the lending transaction. Although each security loaned is fully collateralized, the portfolio would bear the risk of delay in recovery of, or loss of rights in, the securities loaned should a borrower fail to return the securities in a timely manner.

The portfolio may enter into repurchase agreements with financial institutions, deemed to be creditworthy by the Manager, subject to the seller's agreement to repurchase and the portfolio's agreement to resell such securities at a mutually agreed upon price. Securities purchased

subject to repurchase agreements are deposited with the portfolio's custodian and, pursuant to the terms of the repurchase agreement, must have an aggregate market value greater than or equal to the repurchase price plus accrued interest at all times. If the value of the underlying securities falls below the value of the repurchase price plus accrued interest, the portfolio will require the seller to deposit additional collateral by the next business day. If the request for additional collateral is not met, or the seller defaults on its repurchase obligation, the portfolio maintains the right to sell the underlying securities at market value and may claim any resulting loss against the seller.

**(c) Dividends to shareholders:** Dividends are recorded on the ex-dividend date. Dividends from investment income-net and dividends from net realized capital gain, if any, are normally declared and paid annually, but the portfolio 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 gain can be offset by capital loss carryovers, it is the policy of the portfolio not to distribute such gain.

**(d) Federal income taxes:** It is the policy of the portfolio 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.

At December 31, 2002, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income \$19,570, accumulated capital losses \$29,938,221 and unrealized depreciation \$3,055,330. In addition, the portfolio had \$2,605,327 of capital losses realized after October 31, 2002, which were deferred for tax purposes to the first day of the following fiscal year.

The accumulated capital loss carryover is available to be applied against future net securities profits, if any, realized subsequent to December 31, 2002. If not applied, \$7,978,482 of the carryover expires in fiscal 2009 and \$21,959,739 expires in fiscal 2010.

The tax character of distributions paid to shareholders during the fiscal years ended December 31, 2002 and December 31, 2001, respectively, were as follows: ordinary income \$698,750 and \$302,913.

During the period ended December 31, 2002, as a result of permanent book to tax differences, the portfolio increased accumulated undistributed investment income-net by \$4,506 and decreased paid-in capital by the same amount. Net assets were not affected by this reclassification.

**NOTE 2—Bank Line of Credit:**

The portfolio participates with other Dreyfus-managed funds in a \$100 million unsecured line of credit primarily to be utilized for temporary or emergency purposes, including the financing of redemptions. Interest is charged to the portfolio based on prevailing market rates in effect at the time of borrowings. During the period ended December 31, 2002, the portfolio did not borrow under the line of credit.

**NOTE 3—Investment Advisory Fee and Other Transactions With Affiliates:**

(a) Pursuant to an Investment Advisory Agreement with the Manager, the investment advisory fee is computed at the annual rate of .75 of 1% of the value of the portfolio's average daily net assets and is payable monthly.

The Manager has agreed, from January 1, 2002 to December 31, 2003, to waive receipt of its fees and/or assume the expenses of the portfolio so that the expenses of neither class, exclusive of taxes, brokerage fees, interest on borrowings and extraordinary expenses, exceed 1% of the value of the average daily net assets of their class. During the period ended December 31, 2002, the Manager waived receipt of fees of \$15,122, pursuant to the undertaking.

(b) Under the Distribution Plan (the “Plan”) adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing their shares, for servicing and/or maintaining Service shares shareholder accounts and for advertising and marketing for Service shares. The Plan provides for payments to be made at an annual rate of .25 of 1% 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 Plan are payable without regard to actual expenses incurred. During the period ended December 31, 2002, Service shares were charged \$38,380 pursuant to the Plan.

The portfolio compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of the Manager, under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the portfolio. During the period ended December 31, 2002, the portfolio was charged \$450 pursuant to the transfer agency agreement.

The portfolio compensates Mellon under a custody agreement for providing custodial services for the portfolio. During the period ended December 31, 2002, the portfolio was charged \$50,662 pursuant to the custody agreement.

(c) Each Board member also serves as a Board member of other funds within the Dreyfus complex (collectively, the “Fund Group”). Each Board member who is not an “affiliated person” as defined in the Act receives an annual fee of \$25,000 and an attendance fee of \$4,000 for each in person meeting and \$500 for telephone meetings. These fees are allocated among the funds in the Fund Group. The Chairman of the Board receives an additional 25% of such compensation. Subject to the fund’s Emeritus Program Guidelines, Emeritus Board members, if any, receive 50% of the annual retainer fee and per meeting fee paid at the time the Board member achieves emeritus status.



**NOTE 4—Securities Transactions:**

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended December 31, 2002, amounted to \$240,408,273 and \$155,575,146, respectively.

At December 31, 2002, the cost of investments for federal income tax purposes was \$250,886,476; accordingly, accumulated net unrealized depreciation on investments was \$3,055,330, consisting of \$14,997,837 gross unrealized appreciation and \$18,053,167 gross unrealized depreciation.

## REPORT OF INDEPENDENT AUDITORS

### **Shareholders and Board of Trustees Dreyfus Investment Portfolios, MidCap Stock Portfolio**

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Dreyfus Investment Portfolios, MidCap Stock Portfolio (one of the funds comprising Dreyfus Investment Portfolios) as of December 31, 2002, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included verification by examination of securities held by the custodian as of December 31, 2002 and confirmation of securities not held by the custodian by correspondence with others. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Dreyfus Investment Portfolios, MidCap Stock Portfolio at December 31, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the indicated periods, in conformity with accounting principles generally accepted in the United States.

*Ernst + Young LLP*

New York, New York  
February 7, 2003

## IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the portfolio hereby designates 100% of the ordinary dividends paid during the fiscal year ended December 31, 2002 as qualifying for the corporate dividends received deduction.

## BOARD MEMBERS INFORMATION (Unaudited)

### **Joseph S. DiMartino (59)** **Chairman of the Board (1998)**

*Principal Occupation During Past 5 Years:*

- Corporate Director and Trustee

*Other Board Memberships and Affiliations:*

- The Muscular Dystrophy Association, Director
- Levcor International, Inc., an apparel fabric processor, Director
- Century Business Services, Inc., a provider of outsourcing functions for small and medium size companies, Director
- The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director

*No. of Portfolios for which Board Member Serves:* 191

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### **Clifford L. Alexander, Jr. (69)** **Board Member (1998)**

*Principal Occupation During Past 5 Years:*

- President of Alexander & Associates, Inc., a management consulting firm (January 1981–Present)
- Chairman of the Board of Moody's Corporation (October 2000–Present)
- Chairman of the Board and Chief Executive Officer (October 1999–September 2000) and Director (February 1993–September 1999) of The Dun and Bradstreet Corporation

*Other Board Memberships and Affiliations:*

- Wyeth (formerly, American Home Products Corporation), a global leader in pharmaceuticals, consumer healthcare products and animal health products, Director
- Mutual of America Life Insurance Company, Director

*No. of Portfolios for which Board Member Serves:* 70

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### **Lucy Wilson Benson (75)** **Board Member (1998)**

*Principal Occupation During Past 5 Years:*

- President of Benson and Associates, consultants to business and government (1980– Present)

*Other Board Memberships and Affiliations:*

- The International Executive Services Corps, Director
- Citizens Network for Foreign Affairs, Vice Chairman
- Council of Foreign Relations, Member
- Lafayette College Board of Trustees, Vice Chairman Emeritus

*No. of Portfolios for which Board Member Serves:* 44

**David W. Burke (66)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- Corporate Director and Trustee

*Other Board Memberships and Affiliations:*

- John F. Kennedy Library Foundation, Director
- U.S.S. Constitution Museum, Director

*No. of Portfolios for which Board Member Serves: 87*

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**Whitney I. Gerard (68)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- Chadbourne & Parke LLP, Partner

*No. of Portfolios for which Board Member Serves: 42*

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**Arthur A. Hartman (76)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- First NIS Regional Fund (ING/Barings Management) and New Russia Fund, Chairman
- Advisory Council Member to Barings-Vostok

*Other Board Memberships and Affiliations:*

- Ford Meter Box Corporation, Board Member
- APCO Associates, Inc., Senior Consultant

*No. of Portfolios for which Board Member Serves: 42*

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**George L. Perry (68)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- Brookings Institution, Economist and Senior Fellow

*Other Board Memberships and Affiliations:*

- State Farm Mutual Automobile Association, Director
- State Farm Life Insurance Company, Director

*No. of Portfolios for which Board Member Serves: 42*

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*Once elected all Board Members serve for an indefinite term. Additional information about the Board Members, including their address is available in the fund's Statement of Additional Information which can be obtained from Dreyfus free of charge by calling this toll free number: 1-800-554-4611.*

## OFFICERS OF THE FUND (Unaudited)

### **STEPHEN E. CANTER, President since March 2000.**

Chairman of the Board, Chief Executive Officer and Chief Operating Officer of the Manager, and an officer of 94 investment companies (comprised of 188 portfolios) managed by the Manager. Mr. Canter also is a Board member and, where applicable, an Executive Committee Member of the other investment management subsidiaries of Mellon Financial Corporation, each of which is an affiliate of the Manager. He is 57 years old and has been an employee of the Manager since May 1995.

### **STEPHEN R. BYERS, Executive Vice President since November 2002.**

Chief Investment Officer, Vice Chairman and a Director of the Manager, and an officer of 94 investment companies (comprised of 188 portfolios) managed by the Manager. Mr. Byers also is an Officer, Director or an Executive Committee Member of certain other investment management subsidiaries of Mellon Financial Corporation, each of which is an affiliate of the Manager. He is 49 years old and has been an employee of the Manager since January 2000. Prior to joining the Manager, he served as an Executive Vice President-Capital Markets, Chief Financial Officer and Treasurer at Gruntal & Co., L.L.C.

### **MARK N. JACOBS, Vice President since March 2000.**

Executive Vice President, Secretary and General Counsel of the Manager, and an officer of 95 investment companies (comprised of 204 portfolios) managed by the Manager. He is 56 years old and has been an employee of the Manager since June 1977.

### **STEVEN F. NEWMAN, Secretary since March 2000.**

Associate General Counsel and Assistant Secretary of the Manager, and an officer of 95 investment companies (comprised of 204 portfolios) managed by the Manager. He is 53 years old and has been an employee of the Manager since July 1980.

### **JEFF PRUSNOFSKY, Assistant Secretary since March 2000.**

Associate General Counsel of the Manager, and an officer of 12 investment companies (comprised of 65 portfolios) managed by the Manager. He is 37 years old and has been an employee of the Manager since October 1990.

### **MICHAEL A. ROSENBERG, Assistant Secretary since March 2000.**

Associate General Counsel of the Manager, and an officer of 93 investment companies (comprised of 200 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Manager since October 1991.

### **JAMES WINDELS, Treasurer since November 2001.**

Director – Mutual Fund Accounting of the Manager, and an officer of 95 investment companies (comprised of 204 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since April 1985.

### **ERIK D. NAVILOFF, Assistant Treasurer since December 2002.**

Senior Accounting Manager – Taxable Fixed Income Funds of the Manager, and an officer of 18 investment companies (comprised of 77 portfolios) managed by the Manager. He is 34 years old and has been an employee of the Manager since November 1992.

### **ROBERT S. ROBOL, Assistant Treasurer since December 2002.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 28 investment companies (comprised of 119 portfolios) managed by the Manager. He is 38 years old and has been an employee of the Manager since October 1988.

**ROBERT SVAGNA, Assistant Treasurer since December 2002.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 28 investment companies (comprised of 119 portfolios) managed by the Manager. He is 35 years old and has been an employee of the Manager since November 1990.

**KENNETH J. SANDGREN, Assistant Treasurer since November 2001.**

Mutual Funds Tax Director of the Manager, and an officer of 95 investment companies (comprised of 204 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since June 1993.

**WILLIAM GERMENIS, Anti-Money Laundering Compliance Officer since September 2002.**

Vice President and Anti-Money Laundering Compliance Officer of the Distributor, and the Anti-Money Laundering Compliance Officer of 90 investment companies (comprised of 199 portfolios) managed by the Manager. He is 32 years old and has been an employee of the Distributor since October 1998. Prior to joining the Distributor, he was a Vice President of Compliance Data Center, Inc.





# For More Information

To obtain information:

**By telephone**

Call  
1-800-554-4611 or  
516-338-3300

**By mail** Write to:

The Dreyfus Family of Funds  
144 Glenn Curtiss Boulevard  
Uniondale, NY 11556-0144  
Attn: Institutional Servicing

**Dreyfus  
Investment Portfolios,  
MidCap Stock Portfolio**

200 Park Avenue  
New York, NY 10166

**Investment Adviser**

The Dreyfus Corporation  
200 Park Avenue  
New York, NY 10166

**Custodian**

Mellon Bank, N.A.  
One Mellon Bank Center  
Pittsburgh, PA 15258

**Transfer Agent &  
Dividend Disbursing Agent**

Dreyfus Transfer, Inc.  
200 Park Avenue  
New York, NY 10166

**Distributor**

Dreyfus Service Corporation  
200 Park Avenue  
New York, NY 10166

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# The Dreyfus Socially Responsible Growth Fund, Inc.

**ANNUAL REPORT** December 31, 2002



YOU, YOUR ADVISOR AND  
**Dreyfus**  
A MELLON FINANCIAL COMPANY™

The views expressed in this report reflect those of the portfolio manager only through the end of the period covered and do not necessarily represent the views of Dreyfus or any other person in the Dreyfus organization. Any such views are subject to change at any time based upon market or other conditions and Dreyfus disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Dreyfus fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Dreyfus fund.

Not FDIC-Insured • Not Bank-Guaranteed • May Lose Value

# Contents

## THE FUND

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- 2** Letter from the Chairman
- 3** Discussion of Fund Performance
- 6** Fund Performance
- 8** Statement of Investments
- 11** Statement of Assets and Liabilities
- 12** Statement of Operations
- 13** Statement of Changes in Net Assets
- 15** Financial Highlights
- 17** Notes to Financial Statements
- 22** Report of Independent Auditors
- 23** Important Tax Information
- 24** Board Members Information
- 26** Officers of the Fund

## FOR MORE INFORMATION

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Back Cover



## LETTER FROM THE CHAIRMAN

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Dear Shareholder:

We present this annual report for The Dreyfus Socially Responsible Growth Fund, Inc., covering the 12-month period from January 1, 2002 through December 31, 2002. Inside, you'll find valuable information about how the fund was managed during the reporting period, including a discussion with the fund's portfolio managers, L. Emerson Tuttle and Paul Hilton. Mr. Tuttle became the fund's primary portfolio manager with respect to selection of portfolio securities on May 22, 2002 and Mr. Hilton was named a primary portfolio manager in July 2002 with respect to the fund's areas of social concern.

In 2002, investors witnessed the third consecutive year of negative returns for the U.S. stock market. Moreover, with the S&P 500 Index down dramatically since its peak in mid-2000, this bear market ranks as the worst since the 1970s. Virtually every industry group, capitalization range and investment style suffered losses in 2002, leaving investors few shelters from the storm. However, the market's disappointing start to the 21st century may be good news for today's growth-oriented investors as, historically, growth opportunities have generally been greatest when the economic news is bad, prices are down and investors shun stocks.

At the same time, no one can say for sure what direction the markets will take or which investment style will prevail, which is why we continue to encourage you to maintain a long-term perspective and an ongoing dialogue with your financial advisor. Investors with the patience and discipline to weather today's market uncertainty may reap the potential benefits of the better economic times that we believe lie ahead.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter  
Chairman and Chief Executive Officer  
The Dreyfus Corporation  
January 15, 2003



## DISCUSSION OF FUND PERFORMANCE

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L. Emerson Tuttle and Paul Hilton, Portfolio Managers

### **How did The Dreyfus Socially Responsible Growth Fund, Inc. perform relative to its benchmark?**

For the 12-month period ended December 31, 2002, the fund's Initial shares produced a -28.94% total return and the fund's Service shares provided a -29.14% total return.<sup>1</sup> In contrast, the fund's benchmark, the Standard & Poor's 500 Composite Stock Price Index ("S&P 500 Index"), produced a -22.09% total return for the same period.<sup>2</sup>

We attribute the fund's performance to a weak economy and low levels of corporate spending, which resulted in an exceptionally difficult stock market over the past year. Compared to the S&P 500 Index, the fund's returns were hurt by its limited exposure to telecommunications and technology stocks, two areas that rallied during the last few months of the reporting period.

### **What is the fund's investment approach?**

The fund seeks to provide capital growth with current income as a secondary objective. The fund looks for growth-oriented companies that generally exhibit three characteristics: improving profitability measurements, a pattern of consistent earnings and reasonable prices. To pursue these goals, the fund, under normal circumstances, invests at least 80% of its assets in the common stocks of companies that, in the opinion of the fund's management, meet traditional investment standards while simultaneously conducting their businesses in a manner that contributes to the enhancement of the quality of life in America.

### **What other factors influenced the fund's performance?**

The past year has been difficult for most stocks, primarily because of the effects of a weak economy and a dearth of corporate spending. One of the primary detractors from the fund's relative performance during the reporting period was its limited exposure to telecommuni-

cations stocks. These stocks rallied beginning in October, as investors sought inexpensive stocks that had been severely punished during the bear market. What's more, within the telecommunications group, wireless telephone companies, and not the regional telephone companies in which the fund was invested, produced the highest returns during the rally. By the same token, the fund's health care stocks hindered the fund's relative performance, mostly because it had limited exposure to the better performing pharmaceutical companies.

On the other hand, our stock selection strategy within the technology group produced higher returns during the recent rally than the same group within the S&P 500 Index. In fact, three of the fund's top-ten performing stocks were technology companies: International Business Machines, Microsoft and Dell Computer.

**What is the fund's current strategy?**

As of the end of the reporting period, we are nearing completion of the fund's portfolio management transition phase and are pleased with the fund's composition. We have trimmed the fund's exposure to financial stocks, and we redeployed many of those assets into more traditionally defensive areas of the market, including utilities, industrials and basic materials stocks. We have also shifted away from consumer-related stocks, because we believe that consumer spending has reached a plateau. Otherwise, the fund's exposure to the remaining industry groups approximates their representation in the S&P 500 Index. In our view, this sector allocation strategy positions the portfolio more defensively in an uncertain market environment.

**Can you give us an update on the fund's socially responsible investing activities?**

We would like to take this opportunity to review with you some of our social screening methods. We eliminate companies with major concerns in the following areas: environment, worker safety, product safety and employment diversity. In certain industries that have historically poor environmental performance (such as oil and gas companies), we invest



in only those firms that we believe have the best relative environmental performance, rather than eliminate these industry groups altogether. We will not invest in companies that manufacture tobacco products.

If a company violates our social criteria, it is removed from the fund, consistent with the best interests of the fund. However, sometimes a company faces a specific social issue that we believe can best be resolved through a dialogue with company management. In many cases, this results in a timely resolution of the problem.

In response to mounting concerns about global climate change, we are encouraging companies in our fund to focus on energy efficiency at their facilities. According to Green Strategies, Inc., the generation of electricity is responsible for 33% of greenhouse gas emissions in the U.S., the greatest source of any industrial sector. Investment in building energy efficiency can achieve a 35% to 50% reduction in energy consumption, thus reducing greenhouse gases and energy costs.

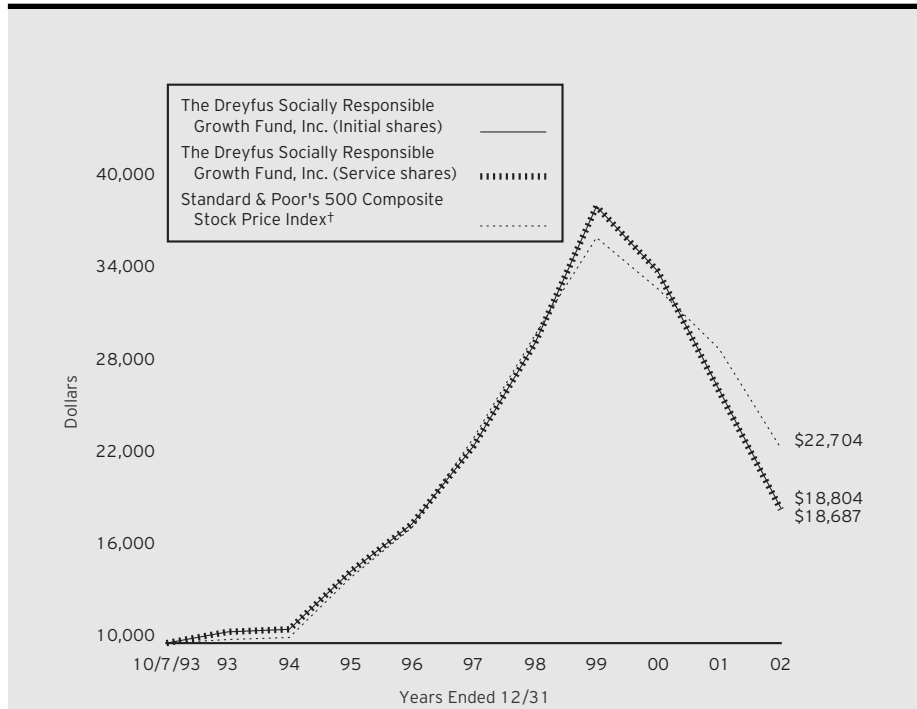
One simple action companies can take is to join the EPA's Energy Star program. Through Energy Star, companies voluntarily partner with the EPA to evaluate and improve their energy efficiency. The end result is significant energy cost reductions and an enhanced environmental exposure. Many of our companies are already partners. We hope our efforts will encourage more to take this important step. You may visit [www.energystar.gov](http://www.energystar.gov) for further information about the Energy Star program.

January 15, 2003

<sup>1</sup> 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.

<sup>2</sup> SOURCE: LIPPER INC. — Reflects reinvestment of dividends and, where applicable, capital gain distributions. The Standard & Poor's 500 Composite Stock Price Index is a widely accepted, unmanaged index of U.S. stock market performance.

## FUND PERFORMANCE



Comparison of change in value of \$10,000 investment in The Dreyfus Socially Responsible Growth Fund, Inc. Initial shares and Service shares and the Standard and Poor's 500 Composite Stock Price Index

### Average Annual Total Returns *as of 12/31/02*

	Inception Date	1 Year	5 Years	From Inception
<b>Initial shares</b>	<b>10/7/93</b>	<b>(28.94)%</b>	<b>(3.80)%</b>	<b>7.08%</b>
<b>Service shares</b>	<b>10/7/93</b>	<b>(29.14)%</b>	<b>(3.92)%</b>	<b>7.01%</b>

*The data for Service shares primarily represents the results of Initial shares. Actual Service shares' average annual total return and hypothetical growth results would have been lower. See notes below.*

† Source: Lipper Inc.

*Past performance is not predictive of future performance. The fund's performance shown in the graph and table does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.*

*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 graph compares a \$10,000 investment made in Initial and Service shares of The Dreyfus Socially Responsible Growth Fund, Inc. on 10/7/93 (inception date of Initial shares) to a \$10,000 investment made in the Standard & Poor's 500 Composite Stock Price Index (the "Index") on that date. For comparative purposes, the value of the Index on 9/30/93 is used as the beginning value on 10/7/93.*

*The fund's Initial shares are not subject to a Rule 12b-1 fee. The fund's Service shares are subject to a 0.25% annual Rule 12b-1 fee. The performance figures for Service shares reflect the performance of the fund's Initial shares from their inception date through December 30, 2000, and the performance of the fund's Service shares from December 31, 2000 (inception date of Service shares) to December 31, 2002 (blended performance figures). The blended performance figures have not been adjusted to reflect the higher operating expenses of the Service shares. If these expenses had been reflected, the blended performance figures would have been lower. All dividends and capital gain distributions are reinvested.*

*The fund's performance shown in the line graph takes into account all applicable fund fees and expenses. The Index is a widely accepted, unmanaged index of U.S. stock market performance, which does not take into account charges, fees and other expenses. Further information relating to fund performance, including expense reimbursements, if applicable, is contained in the Financial Highlights section of the prospectus and elsewhere in this report.*

## STATEMENT OF INVESTMENTS

December 31, 2002

<b>Common Stocks-97.6%</b>	Shares	Value (\$)
<b>Consumer Discretionary-13.1%</b>		
Clear Channel Communications	128,000 <sup>a</sup>	4,773,120
Comcast, Cl. A (Special)	197,000 <sup>a</sup>	4,450,230
Gentex	224,000 <sup>a</sup>	7,087,360
Home Depot	433,900	10,396,244
Starwood Hotels & Resorts Worldwide	200,000	4,748,000
Tiffany & Co.	201,000	4,805,910
Univision Communications, Cl. A	314,000 <sup>a</sup>	7,693,000
Wal-Mart Stores	330,000	16,668,300
		<b>60,622,164</b>
<b>Consumer Staples-10.2%</b>		
Anheuser-Busch Cos.	56,500	2,734,600
CVS	295,000	7,366,150
Coca-Cola	313,000	13,715,660
Colgate-Palmolive	317,000	16,620,310
PepsiCo	159,000	6,712,980
		<b>47,149,700</b>
<b>Energy-5.6%</b>		
Anadarko Petroleum	120,200	5,757,580
Royal Dutch Petroleum (New York Shares), ADR	329,600	14,508,992
Weatherford International	146,900 <sup>a</sup>	5,865,717
		<b>26,132,289</b>
<b>Financials-17.5%</b>		
ACE	336,000	9,858,240
American Express	309,000	10,923,150
American International Group	209,375	12,112,344
Bank of America	44,000	3,061,080
Citigroup	313,000	11,014,470
Fannie Mae	83,000	5,339,390
Fifth Third Bancorp	110,000	6,440,500
Lehman Brothers Holdings	92,000	4,902,680
Marsh & McLennan Cos.	201,000	9,288,210
State Street	200,000	7,800,000
Travelers Property Casualty, Cl. A	16,486	241,520
Travelers Property Casualty, Cl. B	33,872	496,225
		<b>81,477,809</b>

<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Health Care—18.7%</b>		
Amgen	103,000 a	4,979,020
Boston Scientific	181,000 a	7,696,120
Cardinal Health	112,000	6,629,280
Forest Laboratories	58,000 a	5,696,760
Guidant	125,300 a	3,865,505
Johnson & Johnson	238,000	12,782,980
Laboratory Corporation of America Holdings	222,000 a	5,159,280
Medtronic	147,000	6,703,200
Merck & Co.	106,000	6,000,660
Pfizer	598,000	18,280,860
Stryker	54,000	3,624,480
WellPoint Health Networks	78,200 a	5,564,712
		<b>86,982,857</b>
<b>Industrials—8.8%</b>		
Avery Dennison	82,000	5,008,560
Emerson Electric	120,000	6,102,000
First Data	169,000	5,984,290
Grainger (W.W.)	115,000	5,928,250
Illinois Tool Works	91,000	5,902,260
Tyco International	712,000	12,160,960
		<b>41,086,320</b>
<b>Information Technology—18.9%</b>		
Analog Devices	94,000 a	2,243,780
Applied Materials	164,300 a	2,140,829
BEA Systems	371,000 a	4,255,370
Cisco Systems	703,000 a	9,209,300
Dell Computer	421,000 a	11,257,540
Flextronics International	674,000 a	5,520,060
Intel	501,800	7,813,026
International Business Machines	190,000	14,725,000
Linear Technology	185,000	4,758,200
Microsoft	420,000 a	21,714,000
QUALCOMM	108,000 a	3,930,120
		<b>87,567,225</b>

## STATEMENT OF INVESTMENTS (continued)

<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Materials-1.2%</b>		
Praxair	97,000	<b>5,603,690</b>
<b>Telecommunication Services-2.7%</b>		
ALLTEL	68,000	3,468,000
CenturyTel	101,000	2,967,380
Verizon Communications	153,000	5,928,750
		<b>12,364,130</b>
<b>Utilities-.9%</b>		
Pinnacle West Capital	123,500	<b>4,210,115</b>
<b>Total Common Stocks</b> (cost \$481,856,895)		<b>453,196,299</b>
	Principal Amount (\$)	Value (\$)
<b>Short-Term Investments-2.5%</b>		
<b>Certificates of Deposit-.0%</b>		
Self Help Credit Union, 1.25%, 3/18/2003	100,000	<b>100,000</b>
<b>U.S.Treasury Bills-2.5%</b>		
1.16%, 1/2/2003	4,140,000	4,140,000
1.09%, 1/23/2003	2,061,000	2,059,660
1.13%, 2/6/2003	756,000	755,183
1.17%, 2/13/2003	123,000	122,839
1.17%, 2/20/2003	4,144,000	4,137,701
1.19%, 2/27/2003	306,000	305,471
		<b>11,520,854</b>
<b>Total Short-Term Investments</b> (cost \$11,620,128)		<b>11,620,854</b>
<b>Total Investments</b> (cost \$493,477,023)	<b>100.1%</b>	<b>464,817,153</b>
<b>Liabilities, Less Cash and Receivables</b>	<b>(.1%)</b>	<b>(687,713)</b>
<b>Net Assets</b>	<b>100.0%</b>	<b>464,129,440</b>

<sup>a</sup> Non-income producing.  
See notes to financial statements.

## STATEMENT OF ASSETS AND LIABILITIES

December 31, 2002

	Cost	Value
<b>Assets (\$):</b>		
Investments in securities—See Statement of Investments	493,477,023	464,817,153
Receivable for investment securities sold		9,666,167
Dividends and interest receivable		480,969
Receivable for shares of Common Stock subscribed		36,475
Prepaid expenses		13,168
		<b>475,013,932</b>
<b>Liabilities (\$):</b>		
Due to The Dreyfus Corporation and affiliates		314,125
Cash overdraft due to Custodian		925,038
Payable for investment securities purchased		9,233,375
Payable for shares of Common Stock redeemed		334,666
Accrued expenses		77,288
		<b>10,884,492</b>
<b>Net Assets (\$)</b>		<b>464,129,440</b>
<b>Composition of Net Assets (\$):</b>		
Paid-in capital		797,110,889
Accumulated undistributed investment income—net		27,021
Accumulated net realized gain (loss) on investments		(304,348,600)
Accumulated net unrealized appreciation (depreciation) on investments		(28,659,870)
<b>Net Assets (\$)</b>		<b>464,129,440</b>

<b>Net Asset Value Per Share</b>		
	Initial Shares	Service Shares
Net Assets (\$)	456,014,321	8,115,119
Shares Outstanding	24,133,451	430,665
<b>Net Asset Value Per Share (\$)</b>	<b>18.90</b>	<b>18.84</b>

*See notes to financial statements.*

## STATEMENT OF OPERATIONS

Year Ended December 31, 2002

### Investment Income (\$):

#### Income:

Cash dividends (net of \$120,985 foreign taxes withheld at source)	5,866,682
Interest	310,374

**Total Income** **6,177,056**

#### Expenses:

Investment advisory fee—Note 3(a)	4,604,145
Prospectus and shareholders' reports	105,071
Professional fees	84,871
Shareholder servicing costs—Note 3(c)	62,154
Custodian fees—Note 3(c)	53,553
Distribution fees—Note 3(b)	22,099
Directors' fees and expenses—Note 3(d)	17,976
Loan commitment fees—Note 2	7,309
Interest expense—Note 2	188
Miscellaneous	8,262

**Total Expenses** **4,965,628**

**Investment Income—Net** **1,211,428**

### Realized and Unrealized Gain (Loss) on Investments—Note 4 (\$):

Net realized gain (loss) on investments	(117,506,676)
Net unrealized appreciation (depreciation) on investments	(99,629,629)

**Net Realized and Unrealized Gain (Loss) on Investments** **(217,136,305)**

**Net (Decrease) in Net Assets Resulting from Operations** **(215,924,877)**

*See notes to financial statements.*



## STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2002	2001
<b>Operations (\$):</b>		
Investment income–net	1,211,428	503,024
Net realized gain (loss) on investments	(117,506,676)	(156,204,953)
Net unrealized appreciation (depreciation) on investments	(99,629,629)	(91,700,949)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>(215,924,877)</b>	<b>(247,402,878)</b>
<b>Dividends to Shareholders from (\$):</b>		
Investment income–net:		
Initial shares	(1,229,370)	(562,335)
Service shares	(1,294)	(237)
<b>Total Dividends</b>	<b>(1,230,664)</b>	<b>(562,572)</b>
<b>Capital Stock Transactions (\$):</b>		
Net proceeds from shares sold:		
Initial shares	60,389,408	125,232,524
Service shares	5,981,866	9,161,263
Dividends reinvested:		
Initial shares	1,229,370	562,335
Service shares	1,294	237
Cost of shares redeemed:		
Initial shares	(170,703,050)	(174,535,116)
Service shares	(2,952,051)	(206,787)
<b>Increase (Decrease) in Net Assets from Capital Stock Transactions</b>	<b>(106,053,163)</b>	<b>(39,785,544)</b>
<b>Total Increase (Decrease) in Net Assets</b>	<b>(323,208,704)</b>	<b>(287,750,994)</b>
<b>Net Assets (\$):</b>		
Beginning of Period	787,338,144	1,075,089,138
<b>End of Period</b>	<b>464,129,440</b>	<b>787,338,144</b>
Undistributed investment income–net	27,021	46,257

STATEMENT OF CHANGES IN NET ASSETS *(continued)*

	Year Ended December 31,	
	2002	2001
<b>Capital Share Transactions:</b>		
<b>Initial Shares</b>		
Shares sold	2,761,458	4,094,068
Shares issued for dividends reinvested	64,567	20,766
Shares redeemed	(7,902,162)	(6,097,330)
<b>Net Increase (Decrease) in Shares Outstanding</b>	<b>(5,076,137)</b>	<b>(1,982,496)</b>
<b>Service Shares</b>		
Shares sold	271,381	319,159
Shares issued for dividends reinvested	69	8
Shares redeemed	(151,974)	(7,993)
<b>Net Increase (Decrease) in Shares Outstanding</b>	<b>119,476</b>	<b>311,174</b>

*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. These figures have been derived from the fund's financial statements.

Initial Shares	Year Ended December 31,				
	2002	2001	2000	1999	1998
<b>Per Share Data (\$):</b>					
Net asset value, beginning of period	26.67	34.47	39.07	31.08	24.97
Investment Operations:					
Investment income—net	.05 <sup>a</sup>	.02 <sup>a</sup>	.32 <sup>a</sup>	.01 <sup>a</sup>	.05
Net realized and unrealized gain (loss) on investments	(7.77)	(7.80)	(4.63)	9.34	7.28
Total from Investment Operations	(7.72)	(7.78)	(4.31)	9.35	7.33
Distributions:					
Dividends from investment income—net	(.05)	(.02)	(.29)	(.01)	(.05)
Dividends from net realized gain on investments	—	—	—	(1.35)	(1.17)
Total Distributions	(.05)	(.02)	(.29)	(1.36)	(1.22)
Net asset value, end of period	18.90	26.67	34.47	39.07	31.08
<b>Total Return (%)</b>	<b>(28.94)</b>	<b>(22.57)</b>	<b>(11.03)</b>	<b>30.08</b>	<b>29.38</b>
<b>Ratios/Supplemental Data (%):</b>					
Ratio of expenses to average net assets	.80	.78	.78	.79	.80
Ratio of net investment income to average net assets	.20	.06	.82	.04	.20
Portfolio Turnover Rate	90.07	110.82	63.60	70.84	67.60
Net Assets, end of period (\$ x 1,000)	456,014	779,063	1,075,089	897,539	477,797

<sup>a</sup> Based on average shares outstanding at each month end.  
See notes to financial statements.

FINANCIAL HIGHLIGHTS (continued)

Service Shares	Year Ended December 31,		
	2002	2001	2000 <sup>a</sup>
<b>Per Share Data (\$):</b>			
Net asset value, beginning of period	26.59	34.47	34.47
Investment Operations:			
Investment (loss)–net	(.00) <sup>b,c</sup>	(.06) <sup>b</sup>	–
Net realized and unrealized gain (loss) on investments	(7.75)	(7.82)	–
Total from Investment Operations	(7.75)	(7.88)	–
Distributions:			
Dividends from investment income–net	(.00) <sup>c</sup>	(.00) <sup>c</sup>	–
Net asset value, end of period	18.84	26.59	34.47
<b>Total Return (%)</b>	<b>(29.14)</b>	<b>(22.85)</b>	<b>–</b>
<b>Ratios/Supplemental Data (%):</b>			
Ratio of expenses to average net assets	1.03	1.09	–
Ratio of net investment (loss) to average net assets	(.01)	(.20)	–
Portfolio Turnover Rate	90.07	110.82	63.60
Net Assets, end of period (\$ x 1,000)	8,115	8,275	1

<sup>a</sup> The fund commenced offering Service shares on December 31, 2000.

<sup>b</sup> Based on average shares outstanding at each month end.

<sup>c</sup> Amount represents less than \$.01 per share.

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 1—Significant Accounting Policies:**

The Dreyfus Socially Responsible Growth Fund, Inc. (the “fund”) is registered under the Investment Company Act of 1940, as amended (the “Act”), as a diversified open-end management investment company. The fund’s investment objective is to provide capital growth, with current income as a secondary goal through equity investments in companies that not only meet traditional investment standards, but which also show evidence that they conduct their business in a manner that contributes to the enhancement of the quality of life in America. The fund is only offered to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The Dreyfus Corporation (the “Manager”) serves as the fund’s investment adviser. The Manager is a direct subsidiary of Mellon Bank, N.A. (“Mellon”), which is a wholly-owned subsidiary of Mellon Financial Corporation.

On May 22, 2002, the fund’s Board and the Manager notified NCM Capital Management Group, Inc. (“NCM”) of the termination of the Sub-Investment Advisory Agreement between the Manager and NCM, with respect to the fund, pursuant to the terms of the Agreement. Effective that day, the Manager assumed day-to-day portfolio management responsibility for the fund.

Dreyfus Service Corporation (the “Distributor”), a wholly-owned subsidiary of the Manager, is the distributor of the fund’s shares, which are sold without a sales charge. The fund is authorized to issue 300 million shares of \$.001 par value Common Stock in each of the following classes of shares: Initial shares (150 million shares authorized) and Service shares (150 million shares authorized). Initial shares are subject to a shareholder services fee and Service shares are subject to a distribution fee. Each class of shares has identical rights and privileges, except with respect to the shareholder services plan, the distribution plan, and the expenses borne by each class and certain voting rights.

The fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

**(a) Portfolio valuation:** Investments in securities are valued at the last sales price on the securities exchange on which such securities are primarily traded or at the last sales price on the national securities market. 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. Bid price is used when no asked price is available. Securities for which there are no such valuations are valued at fair value as determined in good faith under the direction of the Board of Directors.

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gain and loss 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, amortization of discount and premium on investments, is recognized on the accrual basis. Under the terms of the custody agreement, the fund received net earnings credits of \$334 during the period ended December 31, 2002, based on available cash balances left on deposit. Income earned under this arrangement is included in interest income.

**(c) Dividends to shareholders:** Dividends are recorded on the ex-dividend date. Dividends from investment income-net and dividends from net realized capital gain, 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 gain can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gain.

**(d) 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.

At December 31, 2002, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income \$27,021, accumulated capital losses \$283,900,362 and unrealized depreciation \$30,498,863. In addition, the fund had \$18,609,245 of capital losses realized after October 31, 2002, which were deferred for tax purposes to the first day of the following fiscal year.

The accumulated capital loss carryover is available to be applied against future net securities profits, if any, realized subsequent to December 31, 2002. If not applied, \$7,523,105 of the carryover expires in fiscal 2008, \$172,543,524 expires in fiscal 2009 and \$103,833,733 expires in fiscal 2010.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2002 and December 31, 2001, respectively, were as follows: ordinary income \$1,230,664 and \$562,572.

**NOTE 2—Bank Line of Credit:**

The fund participates with other Dreyfus-managed funds in a \$500 million redemption credit facility (the “Facility”) to be utilized for temporary or emergency purposes, including the financing of redemptions. In connection therewith, the fund has agreed to pay commitment fees on its pro rata portion of the Facility. Interest is charged to the fund based on prevailing market rates in effect at the time of borrowings.

The average daily amount of borrowings outstanding under the Facility during the period ended December 31, 2002 was approximately \$8,800, with a related weighted average annualized interest rate of 2.15%.

**NOTE 3—Investment Advisory Fee, Sub-Investment Advisory Fee and Other Transactions with Affiliates:**

(a) Pursuant to an Investment Advisory Agreement with the Manager, the investment advisory fee is computed at the annual rate of .75 of 1% of the value of the fund’s average daily net assets and is payable monthly.

Pursuant to a Sub-Investment Advisory Agreement between the Manager and NCM, until May 22, 2002, the sub-investment advisory fee was payable monthly by the Manager, and was based upon the value of the fund’s average daily net assets, computed at the following annual rates:

Average Net Assets	
0 to \$32 million . . . . .	.10 of 1%
In excess of \$32 million to \$150 million . . . . .	.15 of 1%
In excess of \$150 million to \$300 million . . . . .	.20 of 1%
In excess of \$300 million . . . . .	.25 of 1%

(b) Under the Distribution Plan (the “Plan”) adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing their shares, for servicing and/or maintaining Service shares shareholder accounts and for advertising and marketing for Service shares. The Plan provides for payments to be made at an annual rate of .25 of 1% 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 Plan are payable without regard to actual expenses incurred. During the period ended December 31, 2002, Service shares were charged \$22,099 pursuant to the Plan.

(c) Under the Shareholder Services Plan, Initial shares reimburse the Distributor an amount not to exceed an annual rate of .25 of 1% of the value of Initial shares’ average daily net assets for certain allocated expenses with respect to servicing and/or maintaining Initial shares shareholder accounts. During the period ended December 31, 2002, Initial shares were charged \$21,410 pursuant to the Shareholder Services Plan.



The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of the Manager, under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the fund. During the period ended December 31, 2002, the fund was charged \$1,251 pursuant to the transfer agency agreement.

The fund compensates Mellon under a custody agreement for providing custodial services for the fund. During the period ended December 31, 2002, the fund was charged \$53,553 pursuant to the custody agreement.

(d) Each Board member also serves as a Board member of other funds within the Dreyfus complex (collectively, the “Fund Group”). Each Board member who is not an “affiliated person” as defined in the Act receives an annual fee of \$25,000 and an attendance fee of \$4,000 for each in person meeting and \$500 for telephone meetings. These fees are allocated among the funds in the Fund Group. The Chairman of the Board receives an additional 25% of such compensation. Subject to the fund’s Emeritus Program Guidelines, Emeritus Board members, if any, receive 50% of the annual retainer fee and per meeting fee paid at the time the Board member achieves emeritus status.

(e) During the period ended December 31, 2002, the fund incurred total brokerage commissions of \$1,867,922, of which \$9,369 was paid to Harborside Plus Inc., a wholly-owned subsidiary of Mellon Financial Corporation.

**NOTE 4—Securities Transactions:**

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended December 31, 2002, amounted to \$535,518,868 and \$641,362,642, respectively.

At December 31, 2002, the cost of investments for federal income tax purposes was \$495,316,016; accordingly, accumulated net unrealized depreciation on investments was \$30,498,863, consisting of \$27,677,155 gross unrealized appreciation and \$58,176,018 gross unrealized depreciation.

## REPORT OF INDEPENDENT AUDITORS

### **Shareholders and Board of Directors The Dreyfus Socially Responsible Growth Fund, Inc.**

We have audited the accompanying statement of assets and liabilities of The Dreyfus Socially Responsible Growth Fund, Inc., including the statement of investments, as of December 31, 2002, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included verification by examination of securities held by the custodian as of December 31, 2002 and confirmation of securities not held by the custodian by correspondence with others. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Dreyfus Socially Responsible Growth Fund, Inc. at December 31, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the indicated periods, in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

New York, New York  
February 1, 2003

## IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the fund hereby designates 100% of the ordinary dividends paid during the fiscal year ended December 31, 2002 as qualifying for the corporate dividends received deduction.

## BOARD MEMBERS INFORMATION (Unaudited)

### **Joseph S. DiMartino (59)** **Chairman of the Board (1995)**

*Principal Occupation During Past 5 Years:*

- Corporate Director and Trustee

*Other Board Memberships and Affiliations:*

- The Muscular Dystrophy Association, Director
- Levcor International, Inc., an apparel fabric processor, Director
- Century Business Services, Inc., a provider of outsourcing functions for small and medium size companies, Director
- The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director

*No. of Portfolios for which Board Member Serves:* 191

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### **Clifford L. Alexander, Jr. (69)** **Board Member (1992)**

*Principal Occupation During Past 5 Years:*

- President of Alexander & Associates, Inc., a management consulting firm (January 1981-Present)
- Chairman of the Board of Moody's Corporation (October 2000-Present)
- Chairman of the Board and Chief Executive Officer (October 1999-September 2000) and Director (February 1993-September 1999) of The Dun and Bradstreet Corporation

*Other Board Memberships and Affiliations:*

- Wyeth (formerly, American Home Products Corporation), a global leader in pharmaceuticals, consumer healthcare products and animal health products, Director
- Mutual of America Life Insurance Company, Director

*No. of Portfolios for which Board Member Serves:* 70

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### **Lucy Wilson Benson (75)** **Board Member (1992)**

*Principal Occupation During Past 5 Years:*

- President of Benson and Associates, consultants to business and government (1980-Present)

*Other Board Memberships and Affiliations:*

- The International Executive Services Corps, Director
- Citizens Network for Foreign Affairs, Vice Chairman
- Council of Foreign Relations, Member
- Lafayette College Board of Trustees, Vice Chairman Emeritus

*No. of Portfolios for which Board Member Serves:* 44

**David W. Burke (66)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- Corporate Director and Trustee

*Other Board Memberships and Affiliations:*

- John F. Kennedy Library Foundation, Director
- U.S.S. Constitution Museum; Director

*No. of Portfolios for which Board Member Serves:* 87

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**Whitney I. Gerard (68)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- Partner of Chadbourne & Parke LLP

*No. of Portfolios for which Board Member Serves:* 42

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**Arthur A. Hartman (76)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- Chairman of First NIS Regional Fund (ING/Barings Management) and New Russia Fund
- Advisory Council Member to Barings-Vostok

*Other Board Memberships and Affiliations:*

- Ford Meter Box Corporation, Board Member
- APCO Associates, Inc., Senior Consultant

*No. of Portfolios for which Board Member Serves:* 42

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**George L. Perry (68)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- Economist and Senior Fellow at Brookings Institution

*Other Board Memberships and Affiliations:*

- State Farm Mutual Automobile Association, Director
- State Farm Life Insurance Company, Director

*No. of Portfolios for which Board Member Serves:* 42

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*Once elected all Board Members serve for an indefinite term. Additional information about the Board Members, including their address is available in the fund's Statement of Additional Information which can be obtained from Dreyfus free of charge by calling this toll free number: 1-800-554-4611.*

## OFFICERS OF THE FUND (Unaudited)

**STEPHEN E. CANTER, President since March 2000.**

Chairman of the Board, Chief Executive Officer and Chief Operating Officer of the Manager, and an officer of 94 investment companies (comprised of 188 portfolios) managed by the Manager. Mr. Canter also is a Board member and, where applicable, an Executive Committee Member of the other investment management subsidiaries of Mellon Financial Corporation, each of which is an affiliate of the Manager. He is 57 years old and has been an employee of the Manager since May 1995.

**STEPHEN R. BYERS, Executive Vice President since November 2002.**

Chief Investment Officer, Vice Chairman and a Director of the Manager, and an officer of 94 investment companies (comprised of 188 portfolios) managed by the Manager. Mr. Byers also is an Officer, Director or an Executive Committee Member of certain other investment management subsidiaries of Mellon Financial Corporation, each of which is an affiliate of the Manager. He is 49 years old and has been an employee of the Manager since January 2000. Prior to joining the Manager, he served as an Executive Vice President-Capital Markets, Chief Financial Officer and Treasurer at Gruntal & Co., L.L.C.

**MARK N. JACOBS, Vice President since March 2000.**

Executive Vice President, Secretary and General Counsel of the Manager, and an officer of 95 investment companies (comprised of 204 portfolios) managed by the Manager. He is 56 years old and has been an employee of the Manager since June 1977.

**STEVEN F. NEWMAN, Secretary since March 2000.**

Associate General Counsel and Assistant Secretary of the Manager, and an officer of 95 investment companies (comprised of 204 portfolios) managed by the Manager. He is 53 years old and has been an employee of the Manager since July 1980.

**JEFF PRUSNOFSKY, Assistant Secretary since March 2000.**

Associate General Counsel of the Manager, and an officer of 12 investment companies (comprised of 65 portfolios) managed by the Manager. He is 37 years old and has been an employee of the Manager since January 1986.

**MICHAEL A. ROSENBERG, Assistant Secretary since March 2000.**

Associate General Counsel of the Manager, and an officer of 93 investment companies (comprised of 200 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Manager since October 1991.

**JAMES WINDELS, Treasurer since November 2001.**

Director – Mutual Fund Accounting of the Manager, and an officer of 95 investment companies (comprised of 204 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since April 1985.

**ROBERT S. ROBOL, Assistant Treasurer since December 2002.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 28 investment companies (comprised of 119 portfolios) managed by the Manager. He is 38 years old and has been an employee of the Manager since October 1988.

**ROBERT SVAGNA, Assistant Treasurer since December 2002.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 28 investment companies (comprised of 119 portfolios) managed by the Manager. He is 35 years old and has been an employee of the Manager since November 1990.

**KENNETH J. SANDGREN, Assistant Treasurer since November 2001.**

Mutual Funds Tax Director of the Manager, and an officer of 95 investment companies (comprised of 204 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since June 1993.

**WILLIAM GERMENIS, Anti-Money Laundering Compliance Officer since October 2002.**

Vice President and Anti-Money Laundering Compliance Officer of the Distributor, and the Anti-Money Laundering Compliance Officer of 90 investment companies (comprised of 199 portfolios) managed by the Manager. He is 32 years old and has been an employee of the Distributor since October 1998. Prior to joining the Distributor, he was a Vice President of Compliance Data Center, Inc.





# For More Information

To obtain information:

**By telephone**

Call

1-800-554-4611 or  
516-338-3300

**By mail** Write to:

The Dreyfus Family of Funds  
144 Glenn Curtiss Boulevard  
Uniondale, NY 11556-0144  
Attn: Institutional Servicing

**The Dreyfus Socially Responsible  
Growth Fund, Inc.**

200 Park Avenue  
New York, NY 10166

**Investment Adviser**

The Dreyfus Corporation  
200 Park Avenue  
New York, NY 10166

**Custodian**

Mellon Bank, N.A.  
One Mellon Bank Center  
Pittsburgh, PA 15258

**Transfer Agent &  
Dividend Disbursing Agent**

Dreyfus Transfer, Inc.  
200 Park Avenue  
New York, NY 10166

**Distributor**

Dreyfus Service Corporation  
200 Park Avenue  
New York, NY 10166



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Printed in U.S.A.

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# INVESCO Variable Investment Funds, Inc.

*A mutual fund sold exclusively to insurance company separate accounts  
for variable annuity and variable life insurance contracts.*

**VIF-UTILITIES FUND**

ANN  
UAL

## Market Overview

December 2002

After two years of declines in the stock market, investors had hoped to see an improvement in 2002. Instead, the market continued downward, with the major stock indexes registering their third consecutive annual loss for the first time in 60 years.

There were a number of factors responsible for the year's swoon. First, a series of corporate accounting scandals dominated the news well into the summer months, tainting investor perception of the market. Furthermore, geopolitical uncertainty persisted throughout the year to varying degrees, as threats of terrorist attacks, a nuclear standoff between India and Pakistan, speculation regarding U.S. intentions toward Iraq, and North Korea's refusal to obey a 1994 arms agreement all clouded the landscape. In addition, oil prices surged to two-year highs by the end of 2002, pressured by strikes in Venezuela and concerns over a potential war with Iraq.

Meanwhile, a generally weak economy and disappointing corporate earnings were ongoing stories. Although a few rallies were ignited by hopes that a recovery might be forthcoming — most notably, a two-month surge that began in October — they could not be sustained in such an uncertain environment.

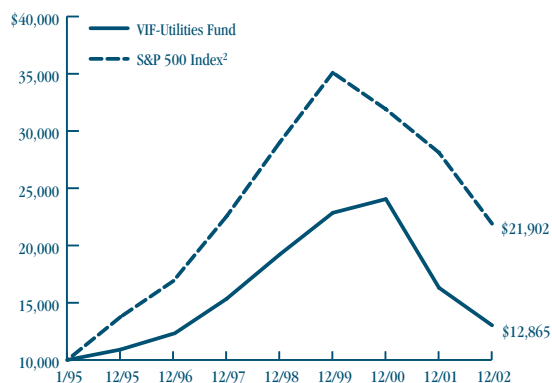
Meanwhile, investors flocked to investments with a defensive reputation. Fixed-income securities advanced, benefiting from the flight-to-quality trend as well as the Federal Reserve's decision to leave interest rates unchanged until November, when a surprisingly steep 50-basis point cut was implemented. Gold stocks and real estate investment trusts were other top performers. Conversely, high-growth sectors, including technology and telecommunications, declined.

As the year came to a close, investors were still seeking direction. On the one hand, the situation with Iraq remained a wild card, and doubts about the resiliency of consumer spending began to emerge. On the other hand, a newly elected Republican-majority Congress and President Bush's new economic plan inspired hope for business-friendly fiscal policy going forward. Overall, few economic analysts foresee a fourth year of broad stock declines, but it will likely take some decisive and lasting signs of improvement before investors regain confidence.

## VIF-Utilities Fund

The line graph below illustrates, for the period from inception through December 31, 2002, the value of a \$10,000 investment in the fund, plus reinvested dividends and capital gain distributions. The charts and other total return figures cited reflect the fund's operating expenses, but the index does not have expenses, which would, of course, have lowered its performance. (Past performance is not a guarantee of future results.)<sup>1,2</sup>

For the 12-month period ended December 31, 2002, the value of your shares declined 20.32%, outperforming the 22.09% decline in the S&P 500 Index. (Of course, past performance is not a guarantee of future results.)<sup>1,2</sup>



Normally, the volatility in the broader market would have supported utilities stocks, as they have historically been regarded as more defensive investments.

## VIF-Utilities Fund Average Annualized Total Return as of 12/31/02<sup>1</sup>

1 year	(20.32%)
5 years	(3.25%)
Since inception (1/95)	3.20%

However, in 2002, utilities were hampered by some sector-specific developments. At the heart of the group's weak showing were gas utilities, which declined sharply as the market grew increasingly leery of any company with trading operations. Following the Enron Corp (not a fund holding during the period) scandal, the Federal Energy Regulatory Commission ordered all companies that supplied power to California to preserve their records, spooking investors.

Telecommunications stocks were under pressure for most of the year, as the slow economy hurt demand for telecom services. In addition, the sector absorbed a serious blow when accounting irregularities at WorldCom Inc (not a fund holding during the period) surfaced, occupying headlines and fueling investors' fears.

Although these conditions presented the fund with its share of challenges, we managed to modestly outperform the broad market. During the early part of 2002, we decreased the fund's telecom weighting, selling our competitive local exchange carriers (CLEC) position. Those telecom firms remaining in the portfolio were limited to more defensive regional Bell operating companies (RBOCs). Even though these firms endured sharp losses during the year, they declined far less dramatically than the CLECs — several of which filed for bankruptcy protection in 2002.

Another key adjustment was our decision to place more emphasis on those integrated electric utilities that offer competitive dividend yields and boast strong balance sheets. This strategy was beneficial, as electric utilities soundly outperformed their gas counterparts over the period.

Going forward, we are cautiously optimistic about the utilities sector. November's elections resulted in a Republican-controlled Senate — which had many investors speculating that the regulatory environment might improve — potentially providing a fundamental boost to the RBOCs. On the other hand, we continue to worry about the debt carried by several companies within the utilities sector, as this burden could lead to liquidity issues down the road. As always, we will be monitoring this situation closely.

## Fund Management

### Jeffrey G. Morris, CFA

Vice President, INVESCO Funds Group. BS, Colorado State University; MS, University of Colorado-Denver. Joined INVESCO in 1991. Began investment career in 1991.

<sup>1</sup>Total return assumes reinvestment of dividends and capital gain distributions for the periods indicated. Investment return and principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than when purchased. Fund returns are net of expenses, but do not reflect the additional fees and expenses of the variable annuity or variable life insurance contract. If those contract fees and expenses were included, the returns would be less than those shown.

<sup>2</sup>The S&P 500 Index is an unmanaged index of the 500 largest common stocks (in terms of market value), weighted by market capitalization and considered representative of the broad stock market. The index is not managed; therefore, its performance does not reflect management fees and other expenses associated with the fund. Investors cannot invest directly in any market index.

Sector funds may be more volatile than diversified equity funds, and are most suitable for the aggressive portion of your portfolio.

The industries and/or sectors used for portfolio securities classification that may be used throughout this report are the Global Industry Classification Standard which was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc. and Standard & Poor's.

## STATEMENT OF INVESTMENT SECURITIES

### INVESCO Variable Investment Funds, Inc. December 31, 2002

%	DESCRIPTION	SHARES OR PRINCIPAL AMOUNT	VALUE
<b>Utilities Fund</b>			
<b>89.61</b>	<b>COMMON STOCKS</b>		
<b>62.75</b>	<b>ELECTRIC UTILITIES</b>		
	Ameren Corp	19,000	\$ 789,830
	American Electric Power	12,800	349,824
	Cinergy Corp	37,500	1,264,500
	Consolidated Edison	27,700	1,186,114
	Dominion Resources	28,000	1,537,200
	DTE Energy	31,400	1,456,960
	Duke Energy	44,800	875,392
	Energy East	48,200	1,064,738
	Entergy Corp	31,300	1,426,967
	Exelon Corp	27,512	1,451,808
	FPL Group	21,800	1,310,834
	Hawaiian Electric Industries	14,300	628,914
	NiSource Inc	31,400	628,000
	Pepco Holdings	9,500	184,205
	Pinnacle West Capital	15,100	514,759
	PPL Corp	38,200	1,324,776
	Progress Energy	23,700	1,027,395
	Reliant Resources <sup>(a)</sup>	105,400	337,280
	SCANA Corp	39,900	1,235,304
	Southern Co	34,700	985,133
			<b>19,579,933</b>
<b>1.42</b>	<b>GAS UTILITIES</b>		
	KeySpan Corp	12,600	444,024
<b>17.60</b>	<b>INTEGRATED TELECOMMUNICATION SERVICES</b>		
	AT&T Corp	9,600	250,656
	BellSouth Corp	50,540	1,307,470
	CenturyTel Inc	46,500	1,366,170
	SBC Communications	46,306	1,255,356
	Verizon Communications	33,833	1,311,029
			<b>5,490,681</b>
<b>6.19</b>	<b>NATURAL GAS PIPELINES</b>		
	Enbridge Energy Management LLC	21,980	824,250
	Kinder Morgan Management LLC	35,098	1,108,746
			<b>1,932,996</b>
<b>1.65</b>	<b>WATER UTILITIES</b>		
	Philadelphia Suburban	25,000	515,000
<b>TOTAL COMMON STOCKS (Cost \$27,812,920)</b>			<b>27,962,634</b>

%	DESCRIPTION	SHARES OR PRINCIPAL AMOUNT	VALUE
<b>2.20</b>	<b>FIXED INCOME SECURITIES — CORPORATE BONDS</b>		
<b>2.20</b>	<b>ELECTRIC UTILITIES</b>		
	Appalachian Power, Sr Notes, Series E, 4.800%, 6/15/2005	\$ 200,000	\$ 200,820
	Public Service Electric & Gas, 1st & Refunding Mortgage Series BB, 9.125%, 7/1/2005	\$ 100,000	114,905
	Series PP, 6.500%, 5/1/2004	\$ 352,000	370,634
	<b>TOTAL FIXED INCOME SECURITIES (Amortized Cost \$670,048)</b>		<b>686,359</b>
<b>7.45</b>	<b>SHORT-TERM INVESTMENTS</b>		
<b>1.14</b>	<b>US Government Obligations</b>		
	US Treasury Notes, 3.000%, 11/30/2003 (Amortized Cost \$353,959)	\$ 350,000	355,619
<b>6.31</b>	<b>Repurchase Agreements</b>		
	Repurchase Agreement with State Street dated 12/31/2002 due 1/2/2003 at 1.150%, repurchased at \$1,969,126 (Collateralized by Freddie Mac, Reference Notes, due 6/15/2003 at 4.500%, value \$2,013,116) (Cost \$1,969,000)	\$ 1,969,000	1,969,000
	<b>TOTAL SHORT-TERM INVESTMENTS (Amortized Cost \$2,322,959)</b>		<b>2,324,619</b>
<b>99.26</b>	<b>TOTAL INVESTMENTS AT VALUE (Cost \$30,805,927)</b>		<b>30,973,612</b>
<b>0.74</b>	<b>OTHER ASSETS LESS LIABILITIES</b>		<b>230,379</b>
<b>100.00</b>	<b>NET ASSETS AT VALUE</b>		<b>\$ 31,203,991</b>

(a) Security is non-income producing.

See Notes to Financial Statements

## STATEMENT OF ASSETS AND LIABILITIES

### INVESCO Variable Investment Funds, Inc. December 31, 2002

	UTILITIES FUND
<b>ASSETS</b>	
Investment Securities:	
At Cost <sup>(a)</sup>	\$ 30,805,927
At Value <sup>(a)</sup>	\$ 30,973,612
Cash	60
Receivables:	
Fund Shares Sold	230,579
Dividends and Interest	54,479
Prepaid Expenses and Other Assets	1,469
<b>TOTAL ASSETS</b>	<b>31,260,199</b>
<b>LIABILITIES</b>	
Payable for Fund Shares Repurchased	48,541
Accrued Expenses and Other Payables	7,667
<b>TOTAL LIABILITIES</b>	<b>56,208</b>
<b>Net Assets at Value</b>	<b>\$ 31,203,991</b>
<b>NET ASSETS</b>	
Paid-in Capital <sup>(b)</sup>	\$ 39,110,050
Accumulated Undistributed Net Investment Income	669,374
Accumulated Undistributed Net Realized Loss on Investment Securities and Foreign Currency Transactions	(8,743,118)
Net Appreciation of Investment Securities and Foreign Currency Transactions	167,685
<b>Net Assets at Value</b>	<b>\$ 31,203,991</b>
Shares Outstanding	2,796,283
<b>Net Asset Value, Offering and Redemption Price per Share</b>	<b>\$ 11.16</b>

(a) Investment securities at cost and value at December 31, 2002 includes a repurchase agreement of \$1,969,000.

(b) The INVESCO Variable Investment Funds, Inc. have 2 billion authorized shares of common stock, par value of \$0.01 per share. Of such shares, 100 million have been allocated to the Fund.

See Notes to Financial Statements

## STATEMENT OF OPERATIONS

### INVESCO Variable Investment Funds, Inc. Year Ended December 31, 2002

	UTILITIES FUND
<b>INVESTMENT INCOME</b>	
INCOME	
Dividends	\$ 881,699
Interest	87,502
Foreign Taxes Withheld	(1,031)
<b>TOTAL INCOME</b>	<b>968,170</b>
<b>EXPENSES</b>	
Investment Advisory Fees	155,471
Administrative Services Fees	78,666
Custodian Fees and Expenses	12,417
Directors' Fees and Expenses	12,892
Professional Fees and Expenses	17,658
Registration Fees and Expenses	254
Reports to Shareholders	20,937
Transfer Agent Fees	5,000
Other Expenses	2,242
<b>TOTAL EXPENSES</b>	<b>305,537</b>
Fees and Expenses Absorbed/Reimbursed by Investment Adviser	(6,985)
Fees and Expenses Paid Indirectly	(469)
<b>NET EXPENSES</b>	<b>298,083</b>
<b>NET INVESTMENT INCOME</b>	<b>670,087</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENT SECURITIES</b>	
Net Realized Loss on:	
Investment Securities	(7,788,774)
Foreign Currency Transactions	(8,047)
<b>Total Net Realized Loss</b>	<b>(7,796,821)</b>
Change in Net Appreciation/Depreciation of:	
Investment Securities	1,678,491
Foreign Currency Transactions	(821)
<b>Total Change in Net Appreciation/Depreciation</b>	<b>1,677,670</b>
<b>NET LOSS ON INVESTMENT SECURITIES AND FOREIGN CURRENCY TRANSACTIONS</b>	<b>(6,119,151)</b>
<b>Net Decrease in Net Assets from Operations</b>	<b>\$ (5,449,064)</b>

See Notes to Financial Statements



## STATEMENT OF CHANGES IN NET ASSETS

### Utilities Fund

	YEAR ENDED DECEMBER 31	
	2002	2001
<b>OPERATIONS</b>		
Net Investment Income	\$ 670,087	\$ 161,367
Net Realized Loss	(7,796,821)	(878,097)
Change in Net Appreciation/Depreciation	1,677,670	(4,596,345)
<b>NET DECREASE IN NET ASSETS FROM OPERATIONS</b>	<b>(5,449,064)</b>	<b>(5,313,075)</b>
<b>DISTRIBUTIONS TO SHAREHOLDERS</b>		
Net Investment Income	(161,756)	(102,460)
Net Realized Gain on Investment Securities and Foreign Currency Transactions	0	(106,296)
<b>TOTAL DISTRIBUTIONS</b>	<b>(161,756)</b>	<b>(208,756)</b>
<b>FUND SHARE TRANSACTIONS</b>		
Proceeds from Sales of Shares	25,731,149	21,078,887
Reinvestment of Distributions	161,756	208,756
	25,892,905	21,287,643
Amounts Paid for Repurchases of Shares	(10,025,484)	(7,118,034)
<b>NET INCREASE IN NET ASSETS FROM FUND SHARE TRANSACTIONS</b>	<b>15,867,421</b>	<b>14,169,609</b>
<b>Total Increase in Net Assets</b>	<b>10,256,601</b>	<b>8,647,778</b>
<b>NET ASSETS</b>		
Beginning of Period	20,947,390	12,299,612
End of Period (Including Accumulated Undistributed Net Investment Income of \$669,374 and \$161,145, respectively)	\$ 31,203,991	\$ 20,947,390

### FUND SHARE TRANSACTIONS

Shares Sold	2,154,461	1,315,091
Shares Issued from Reinvestment of Distributions	14,497	14,825
	2,168,958	1,329,916
Shares Repurchased	(859,909)	(426,823)
<b>Net Increase in Fund Shares</b>	<b>1,309,049</b>	<b>903,093</b>

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

INVESCO Variable Investment Funds, Inc.

**NOTE 1 — Organization And Significant Accounting Policies.** INVESCO Variable Investment Funds, Inc. is incorporated in Maryland and presently consists of thirteen separate Funds: Core Equity Fund (formerly Equity Income Fund), Dynamics Fund, Financial Services Fund, Growth Fund, Health Sciences Fund, High Yield Fund, Leisure Fund, Real Estate Opportunity Fund, Small Company Growth Fund, Technology Fund, Telecommunications Fund, Total Return Fund and Utilities Fund (the "Fund", presented herein). The investment objective of the Fund is to seek capital growth and current income through investments in a specific business sector. INVESCO Variable Investment Funds, Inc. is registered under the Investment Company Act of 1940 (the "Act") as a diversified, open-end management investment company. The Fund's shares are not offered directly to the public but are sold exclusively to life insurance companies ("Participating Insurance Companies") as a pooled funding vehicle for variable annuity and variable life insurance contracts issued by separate accounts of the Participating Insurance Companies.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 income and expenses during the reporting period. Actual results could differ from those estimates.

**A. Security Valuation** — Domestic (U.S.) equity securities traded on national securities exchanges or in the over-the-counter market are valued at the last sales price at the close of the regular trading day on the exchange (generally 4:00 p.m. Eastern time) where such securities are primarily traded. If last sales prices are not available, securities are valued at the closing bid price for the regular trading day as obtained from one or more dealers making a market for such securities or by a pricing service approved by the Fund's board of directors.

Foreign equity securities are valued at the closing price. The closing price is designated by the principal stock exchange in the country in which the securities are traded. In the event that closing prices are not available for foreign securities, a snapshot of prices will be obtained from the principal stock exchange at or prior to the close of the New York Stock Exchange. Foreign currency exchange rates are determined daily prior to the close of the New York Stock Exchange.

Debt securities are valued at evaluated bid prices as determined by a pricing service approved by the Fund's board of directors. If evaluated bid prices are not available, debt securities are valued by averaging the bid prices obtained from one or more dealers making a market for such securities.

Investments in shares of investment companies are valued at the net asset value of the respective fund as calculated each day.

If market quotations or pricing service valuations are not readily available, or events or circumstances that may affect the value of portfolio securities are identified between the closing of their principal markets and the time that the net asset value per share is determined, securities are valued at fair value as determined in good faith under procedures established by the Fund's board of directors.

Short-term securities are stated at amortized cost (which approximates market value) if maturity is 60 days or less at the time of purchase, or market value if maturity is greater than 60 days.

Assets and liabilities initially expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing market rates as quoted by one or more banks or dealers on the date of valuation.

**B. Repurchase Agreements** — Repurchase agreements held by the Fund are fully collateralized by securities issued by the U.S. Government, its agencies or instrumentalities and such collateral is in the possession of the Fund's custodian. The collateral is evaluated daily to ensure its market value exceeds the current market value of the repurchase agreements including accrued interest. In the event of default on the obligation to repurchase, the Fund has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation.

**C. Security Transactions And Related Investment Income** — Security transactions are accounted for on the trade date and dividend income is recorded on the ex-dividend date. Interest income, which may be comprised of stated coupon rate, market discount, original issue discount or amortized premium, is recorded on the accrual basis. Discounts or premiums on debt securities purchased are amortized over the life of the respective security as adjustments to interest income. Cost is determined on the specific identification basis. Certain dividends from foreign securities will be recorded as soon as the Fund is informed of the dividend if such information is obtained subsequent to the ex-dividend date. Investment

income received from foreign sources may be subject to foreign withholding taxes. Dividend and interest income is shown gross of foreign withholding taxes in the accompanying financial statements. Income and expenses on foreign securities are translated into U.S. dollars at rates of exchange prevailing when accrued. The cost of foreign securities is translated into U.S. dollars at the rates of exchange prevailing when such securities are acquired.

The Fund may invest in securities issued by other INVESCO investment companies that invest in short-term debt securities and seek to maintain a net asset value of one dollar per share. During the year ended December 31, 2002, there were no such investments by the Fund.

The Fund may have elements of risk due to concentrated investments in specific industries or foreign issuers located in a specific country. Such investments may subject the Fund to additional risks resulting from future political or economic conditions and/or possible impositions of adverse foreign governmental laws or currency exchange restrictions. Net realized and unrealized gain or loss from investment securities includes fluctuations from currency exchange rates and fluctuations in market value.

The Fund's use of short-term forward foreign currency contracts may subject it to certain risks as a result of unanticipated movements in foreign exchange rates. The Fund does not hold short-term forward foreign currency contracts for trading purposes. The Fund may hold foreign currency in anticipation of settling foreign security transactions and not for investment purposes.

**D. Dividends And Distributions To Shareholders** — Dividends and distributions to shareholders are recorded by the Fund on the ex-dividend/distribution date. The Fund distributes net realized capital gains, if any, to its shareholders at least annually, if not offset by capital loss carryovers.

**E. Tax Information** — The Fund has complied, and continues to comply, with the provisions of the Internal Revenue Code applicable to regulated investment companies and, accordingly, has made or intends to make sufficient distributions of net investment income and net realized capital gains, if any, to relieve it from all federal and state income taxes and federal excise taxes.

Dividends paid by the Fund from net investment income and distributions of net realized short-term capital gains are, for federal income tax purposes, taxable as ordinary income to shareholders. The tax composition of dividends was \$161,756 of ordinary income distributions. Of the ordinary income distributions declared for the year ended December 31, 2002, 100.00% qualified for the dividends received deduction available to the Fund's Corporate shareholders.

Income and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States.

The tax components of the Fund at December 31, 2002 include:

Cost of Investments for Tax Purposes	\$ 30,916,192
Gross Tax Unrealized Appreciation	\$ 1,167,128
Gross Tax Unrealized Depreciation	1,109,708
Net Tax Appreciation on Investments	\$ 57,420
Undistributed Ordinary Income	\$ 670,228
Accumulated Capital Loss Carryovers	(8,034,627)
Cumulative Effect of Other Timing Differences	(599,080)

The primary difference between book and tax appreciation/depreciation is wash sale loss deferrals.

Capital loss carryovers expire in the years 2009 and 2010. To the extent future capital gains and income are offset by capital loss carryovers and deferred post-October 31 losses, such gains and income will not be distributed to shareholders.

The cumulative effect of other timing differences includes deferred post-October 31 capital losses of \$598,226 and deferred directors' fees.

**F. Forward Foreign Currency Contracts** — The Fund enters into short-term forward foreign currency contracts in connection with planned purchases or sales of securities as a hedge against fluctuations in foreign exchange rates pending the settlement of transactions in foreign securities. A forward foreign currency contract is an agreement between contracting parties to exchange an amount of currency at some future time at an agreed upon rate. These contracts are marked-to-market daily and the related appreciation or depreciation of the contracts is presented in the Statement of Assets and Liabilities. Any realized gain or loss incurred by the Fund upon the sale of securities is included in the Statement of Operations.

**G. Expenses** — The Fund bears expenses incurred specifically on its behalf and, in addition, the Fund bears a portion of general expenses, based on the relative net assets of the Fund.

Under an agreement between the Fund and the Fund's Custodian, certain Custodian Fees and Expenses are reduced by credits granted by the Custodian from any temporarily uninvested cash. Such credits are included in Fees and Expenses Paid Indirectly in the Statement of Operations.

**NOTE 2 — Investment Advisory And Other Agreements.** INVESCO Funds Group, Inc. ("IFG") serves as the Fund's investment adviser. As compensation for its services to the Fund, IFG receives an investment advisory fee which is accrued daily at the applicable rate and paid monthly. The fee is based on the annual rate of 0.60% of average net assets.

IFG receives a transfer agent fee of \$5,000 per year. The fee is paid monthly at one-twelfth of the annual fee.

In accordance with an Administrative Services Agreement, the Fund pays IFG an annual fee of \$10,000, plus an additional amount computed at an annual rate of 0.265% of average net assets to provide administrative, accounting and clerical services. The fee is accrued daily and paid monthly. IFG may pay all or a portion of the fee to other companies that assist in providing the services.

IFG has voluntarily agreed to absorb and assume certain fees and expenses incurred by the Fund. Effective June 1, 2002, IFG is entitled to reimbursement from the Fund for fees and expenses voluntarily absorbed pursuant to this arrangement if such reimbursements do not cause the fund to exceed voluntary expense limitations and the reimbursement is made within three years after IFG incurred the expense. For the year ended December 31, 2002, the reimbursement that may potentially be made by the Fund to IFG and that will expire during the year ended December 31, 2005, is \$5,254.

**NOTE 3 — Purchases And Sales Of Investment Securities.** For the year ended December 31, 2002, the aggregate cost of purchases and proceeds from sales of investment securities (excluding all U.S. Government securities and short-term securities) were \$40,409,754 and \$23,683,707, respectively. During that same period, the aggregate cost of purchases and proceeds from the sales of U.S. Government securities were \$355,414 and \$0, respectively.

**NOTE 4 — Transactions With Affiliates.** Certain of the Fund's officers and directors are also officers and directors of IFG.

The Fund has adopted an unfunded retirement plan covering all independent directors of the Fund who will have served as an independent director for at least five years at the time of retirement. Benefits under this plan are based on an annual rate as defined in the plan agreement, as amended March 1, 2001. Effective November 8, 2002, the plan provides that a director, prior to retirement, may elect to convert amounts accrued under this plan into a new deferred retirement plan.

Pension expenses for the year ended December 31, 2002, included in Directors' Fees and Expenses in the Statement of Operations were \$445. Unfunded accrued pension costs of \$0 and pension liability of \$854 are included in Prepaid Expenses and Accrued Expenses, respectively, in the Statement of Assets and Liabilities.

The independent directors have contributed to a deferred fee agreement plan, pursuant to which they have deferred receipt of a portion of the compensation which they would otherwise have been paid as directors of the INVESCO Funds. The deferred amounts may be invested in the shares of any of the INVESCO Funds, excluding the INVESCO Variable Investment Funds.

**NOTE 5 — Securities Loaned.** The Fund has entered into a securities lending agreement with the custodian. Under the terms of the agreement, the Fund receives income, recorded monthly, after deduction of other amounts payable to the custodian or to the borrower from lending transactions. In exchange for such fees, the custodian is authorized to loan securities on behalf of the Fund, against receipt of collateral at least equal in value to the value of securities loaned. Cash collateral is invested by the custodian in the INVESCO Treasurer's Series Money Market Reserve Fund or securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities. The Fund bears the risk of any deficiency in the

amount of collateral available for return to a borrower due to a loss in an approved investment. During the year ended December 31, 2002, there were no such securities lending arrangements for the Fund.

**NOTE 6 — Interfund Borrowing And Lending.** The Fund is party to an interfund lending agreement between the Fund and other INVESCO sponsored mutual funds, which permits it to borrow or lend cash, at rates beneficial to both the borrowing and lending funds. Loans totaling 10% or more of a borrowing Fund's total assets are collateralized at 102% of the value of the loan; loans of less than 10% are unsecured. The Fund may borrow up to 10% of its total net assets for temporary or emergency purposes. During the year ended December 31, 2002, there were no such borrowings and/or lendings for the Fund.

**NOTE 7 — Line Of Credit.** The Fund has available a Redemption Line of Credit Facility ("LOC"), from a consortium of national banks, to be used for temporary or emergency purposes to fund redemptions of investor shares. The LOC permits borrowings to a maximum of 10% of the net assets at value of the Fund. The Fund agrees to pay annual fees and interest on the unpaid principal balance based on prevailing market rates as defined in the agreement. During the year ended December 31, 2002, there were no such borrowings for the Fund.

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## Report of Independent Accountants

To the Board of Directors and Shareholders of  
INVESCO Variable Investment Funds, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the statement of investment securities, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Utilities Fund, (one of the portfolios constituting INVESCO Variable Investment Funds, Inc., hereafter referred to as the "Fund") at December 31, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2002 by correspondence with the custodian and broker, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Denver, Colorado  
February 4, 2003

## FINANCIAL HIGHLIGHTS

### Utilities Fund (For a Fund Share Outstanding Throughout Each Period)

	YEAR ENDED DECEMBER 31				
	2002	2001	2000	1999	1998
<b>PER SHARE DATA</b>					
Net Asset Value — Beginning of Period	\$ 14.08	\$ 21.06	\$ 20.97	\$ 17.78	\$ 14.40
<b>INCOME FROM INVESTMENT OPERATIONS</b>					
Net Investment Income <sup>(a)</sup>	0.19	0.00	0.17	0.22	0.25
Net Gains or (Losses) on Securities (Both Realized and Unrealized)	(3.05)	(6.83)	0.87	3.17	3.41
<b>Total from Investment Operations</b>	<b>(2.86)</b>	<b>(6.83)</b>	<b>1.04</b>	<b>3.39</b>	<b>3.66</b>
<b>LESS DISTRIBUTIONS</b>					
Dividends from Net Investment Income	0.06	0.07	0.03	0.20	0.24
Distributions from Capital Gains	0.00	0.08	0.92	0.00	0.04
<b>Total Distributions</b>	<b>0.06</b>	<b>0.15</b>	<b>0.95</b>	<b>0.20</b>	<b>0.28</b>
Net Asset Value — End of Period	\$ 11.16	\$ 14.08	\$ 21.06	\$ 20.97	\$ 17.78
<b>TOTAL RETURN</b> <sup>(b)</sup>	(20.32%)	(32.41%)	5.28%	19.13%	25.48%
<b>RATIOS</b>					
Net Assets — End of Period (\$000 Omitted)	\$ 31,204	\$ 20,947	\$ 12,300	\$ 9,137	\$ 6,993
Ratio of Expenses to Average Net Assets <sup>(c)(d)</sup>	1.15%	1.15%	1.22%	1.20%	1.08%
Ratio of Net Investment Income to Average Net Assets <sup>(d)</sup>	2.59%	1.13%	0.94%	1.15%	1.73%
Portfolio Turnover Rate	102%	33%	50%	40%	35%

(a) Net Investment Income aggregated less than \$0.01 on a per share basis for the year ended December 31, 2001.

(b) Total Return does not reflect expenses that apply to the related insurance policies, and inclusion of these charges would reduce the total return figures for the periods shown.

(c) Ratio is based on Total Expenses of the Fund, less Expenses Absorbed by Investment Adviser, which is before any expense offset arrangements (which may include custodian fees).

(d) Various expenses of the Fund were voluntarily absorbed by IFG for the years ended December 31, 2002, 2001, 2000, 1999 and 1998. If such expenses had not been voluntarily absorbed, ratio of expenses to average net assets would have been 1.18%, 1.37%, 1.41%, 1.53% and 1.60%, respectively, and ratio of net investment income to average net assets would have been 2.56%, 0.91%, 0.75%, 0.82% and 1.21%, respectively.

## OTHER INFORMATION

UNAUDITED

The table below provides information about each of the Independent and Interested Directors. Their affiliations represent their principal occupations.

NAME, ADDRESS AND AGE	POSITION(S) HELD WITH COMPANY, TERM OF OFFICE AND LENGTH OF TIME SERVED*	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS*	NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY DIRECTOR	OTHER DIRECTORSHIPS HELD BY DIRECTOR
<b>Independent Directors</b>				
Fred A. Deering 1551 Larimer Street, #1701 Denver, Colorado  Age: 74	Vice Chairman of the Board	Formerly, Chairman of the Executive Committee and Chairman of the Board of Security Life of Denver Insurance Company and Director of ING American Holdings Company and First ING Life Insurance Company of New York. Formerly, Trustee of INVESCO Global Health Sciences Fund.	48	
Sueann Ambron University of Colorado at Denver 1250 14th Street Denver, Colorado  Age: 58	Director (Since 2003)	Dean of the Business School, College of Business, University of Colorado of Denver (2000-present). Formerly, President and Chief Executive Officer of Avulet, Inc., Sunnyvale, California (1998-1999), Vice President and General Manager, Multimedia Services Division, Motorola, Inc., Schoumburg, Illinois (1996-1998).	48	
Victor L. Andrews, Ph.D. 34 Seawatch Drive Savannah, Georgia  Age: 72	Director	Professor Emeritus, Chairman Emeritus and Chairman and CFO of the Roundtable of the Department of Finance of Georgia State University; and President Andrews Financial Associates, Inc. (consulting firm). Formerly, member of the faculties of the Harvard Business School; and the Sloan School of Management of MIT.	48	Director of The Sheffield Funds, Inc.
Bob R. Baker 37 Castle Pines Dr. N. Castle Rock, Colorado  Age: 66	Director	Consultant (2000 to Present). Formerly, President and Chief Executive Officer (1988 to 2000) of AMC Cancer Research Center, Denver, Colorado. Until Mid-December 1988, Vice Chairman of the Board of First Columbia Financial Corporation, Englewood, Colorado; formerly, Chairman of the Board and Chief Executive Officer of First Columbia Financial Corporation.	48	
Lawrence H. Budner 7608 Glen Albens Circle Dallas, Texas  Age: 72	Director	Trust Consultant. Formerly, Senior Vice President and Senior Trust Officer of InterFirst Bank, Dallas, Texas.	48	

## OTHER INFORMATION (CONTINUED)

UNAUDITED

NAME, ADDRESS AND AGE	POSITION(S) HELD WITH COMPANY, TERM OF OFFICE AND LENGTH OF TIME SERVED*	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS*	NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY DIRECTOR	OTHER DIRECTORSHIPS HELD BY DIRECTOR
James T. Bunch 3600 Republic Plaza 370 Seventeenth Street Denver, Colorado  Age: 59	Director (since 2000)	Principal and Founder of Green, Manning & Bunch Ltd., Denver, Colorado (1988 to Present); Director and Secretary of Green, Manning & Bunch Securities, Inc. since September 1993; Director and Vice President of Western Golf Association and Evans Scholars Foundation; and Director of United States Golf Association. Formerly, General Counsel and Director of Boettcher & Company, Denver, Colorado; and formerly, Chairman and Managing Partner of Davis, Graham & Stubbs, Denver, Colorado.	48	
Gerald J. Lewis 701 "B" Street Suite 2100 San Diego, California  Age: 69	Director (since 2000)	Chairman of Lawsuit Resolution Services, San Diego, California (1987 to Present). Formerly, Associate Justice of the California Court of Appeals; and of Counsel, Latham & Watkins, San Diego, California (1987 to 1997).	48	Director of General Chemical Group, Inc., Hampdon, New Hampshire (1996 to Present). Director of Wheelabrator Technologies, Inc., Fisher Scientific, Inc., Henley Manufacturing, Inc., and California Coastal Properties, Inc.
John W. McIntyre 7 Piedmont Center Suite 100 Atlanta, Georgia  Age: 72	Director	Retired. Trustee of Gables Residential Trust. Trustee and Chairman of the J.M. Tull Charitable Foundation; Director of Kaiser Foundation Health Plans of Georgia, Inc. Formerly, Vice Chairman of the Board of Directors of The Citizens and Southern Corporation and Chairman of the Board and Chief Executive Officer of The Citizens and Southern Georgia Corporation and The Citizens and Southern National Bank. Formerly, Trustee of INVESCO Global Health Sciences Fund and Trustee of Employee's Retirement System of Georgia, Emory University.	48	
Larry Soll, Ph. D. 2358 Sunshine Canyon Dr. Boulder, Colorado  Age: 60	Director (since 1997)	Retired. Formerly, Chairman of the Board (1987 to 1994), Chief Executive Officer (1982 to 1989 and 1993 to 1994) and President (1982 to 1989) of Synergen Inc.; and formerly, Trustee of INVESCO Global Health Sciences Fund.	48	Director of Synergen since incorporation in 1982; Director of Isis Pharmaceuticals, Inc.



## OTHER INFORMATION (CONTINUED)

UNAUDITED

NAME, ADDRESS AND AGE	POSITION(S) HELD WITH COMPANY, TERM OF OFFICE AND LENGTH OF TIME SERVED*	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS*	NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY DIRECTOR	OTHER DIRECTORSHIPS HELD BY DIRECTOR
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### Interested Directors and Officers

These directors are “interested persons” of IFG as defined in the Act, and they are interested persons by virtue of the fact that he/she is an officer or director of IFG, IDI or an affiliate of IFG.

<p>Mark H. Williamson 4350 South Monaco Street Denver, Colorado  Age: 51</p>	<p>President (1998-2003); Chief Executive Officer (1998-Present); and Chairman of the Board (since 1999)</p>	<p>Chief Executive Officer, Managed Products Division, AMVESCAP PLC (2001-Present). Formerly, Chairman of the Board (1998- 2002), President (1998-2002), and Chief Executive Officer (1998-2002) of INVESCO Funds Group, Inc.; and formerly, Chairman of the Board (1998-2002), President (1998-2002), and Chief Executive Officer (1998-2002) of INVESCO Distributors, Inc. Formerly, Chief Operating Officer and Chairman of the Board of INVESCO Global Health Sciences Fund; formerly, Chairman and Chief Executive Officer of NationsBanc Advisors, Inc.; and formerly, Chairman of NationsBanc Investments, Inc.</p>	<p>48</p>	
<p>Raymond R. Cunningham 4350 South Monaco Street Denver, Colorado  Age: 51</p>	<p>Vice President and Director (since 2001)</p>	<p>President (2003-present) and Chief Executive Officer (2003-present) of INVESCO Funds Group, Inc.; Chairman of the Board (2003- present), President (2003-present), and Chief Executive Officer (2003-present) of INVESCO Distributors, Inc. Formerly, Chief Operating Officer (2002-2003) and Senior Vice President (1999-2002) of INVESCO Funds Group, Inc.; formerly, Chief Operating Officer (2002-2003) and Senior Vice President (1999-2002) of INVESCO Distributors, Inc. and Formerly, Senior Vice President of GT Global - North America (1992-1998).</p>	<p>48</p>	<p>Director of INVESCO Funds Group, Inc. and Chairman of the Board of INVESCO Distributors, Inc.</p>
<p>Richard W. Healey 4350 South Monaco Street Denver, Colorado  Age: 48</p>	<p>Director (since 2000)</p>	<p>Senior Vice President of INVESCO Funds Group, Inc.; Senior Vice President of INVESCO Distributors, Inc. Formerly, Senior Vice President of GT Global - North America (1996 to 1998) and The Boston Company (1993 to 1996).</p>	<p>39</p>	<p>Director of INVESCO Funds Group, Inc. and INVESCO Distributors, Inc.</p>

## OTHER INFORMATION (CONTINUED)

UNAUDITED

NAME, ADDRESS AND AGE	POSITION(S) HELD WITH COMPANY, TERM OF OFFICE AND LENGTH OF TIME SERVED*	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS*	NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY DIRECTOR	OTHER DIRECTORSHIPS HELD BY DIRECTOR
Glen A. Payne 4350 South Monaco Street Denver, Colorado  Age: 55	Secretary	Senior Vice President, General Counsel and Secretary of INVESCO Funds Group, Inc.; Senior Vice President, Secretary and General Counsel of INVESCO Distributors, Inc. Formerly, Secretary of INVESCO Global Health Sciences Fund; General Counsel of INVESCO Trust Company (1989 to 1998); and employee of a U.S. regulatory agency, Washington, D.C. (1973 to 1989).		
Ronald L. Grooms 4350 South Monaco Street Denver, Colorado  Age: 56	Chief Accounting Officer, Chief Financial Officer and Treasurer	Senior Vice President and Treasurer of INVESCO Funds Group, Inc.; and Senior Vice President and Treasurer of INVESCO Distributors, Inc. Formerly, Treasurer and Principal Financial and Accounting Officer of INVESCO Global Health Sciences Fund; and Senior Vice President and Treasurer of INVESCO Trust Company (1988 to 1998).		Director of INVESCO Funds Group, Inc. and INVESCO Distributors, Inc.
William J. Galvin, Jr. 4350 South Monaco Street Denver, Colorado  Age: 46	Assistant Secretary	Senior Vice President and Assistant Secretary of INVESCO Funds Group, Inc.; and Senior Vice President and Assistant Secretary of INVESCO Distributors, Inc. Formerly, Trust Officer of INVESCO Trust Company (1995 to 1998).		Director of INVESCO Funds Group, Inc. and INVESCO Distributors, Inc.
Pamela J. Piro 4350 South Monaco Street Denver, Colorado  Age: 42	Assistant Treasurer	Vice President and Assistant Treasurer of INVESCO Funds Group, Inc.; and Assistant Treasurer of INVESCO Distributors, Inc. Formerly, Assistant Vice President (1996 to 1997).		
Tane T. Tyler 4350 South Monaco Street Denver, Colorado  Age: 37	Assistant Secretary (since 2002)	Vice President and Assistant General Counsel of INVESCO Funds Group, Inc.		

\* Except as otherwise indicated, each individual has held the position(s) shown for at least the last five years.

The Statement of Additional Information ("SAI") includes additional information about Fund directors and is available, without charge, upon request. To obtain a free copy of the current SAI, call 1-800-525-8085.

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INVESCO Distributors, Inc.,<sup>SM</sup> Distributor  
Post Office Box 173706  
Denver, Colorado 80217-3706

This information must be preceded or accompanied by a current prospectus. We encourage you to obtain from your advisor a personal illustration of historical performance which reflects the cost of the insurance protection from the insurance company.

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# Scudder Variable Series I

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**Annual Report**  
December 31, 2002

*An open-end management investment company that  
offers shares of beneficial interest in six types of  
diversified portfolios.*

# Contents

---

3	Letter from the President	
<b>Growth and Income Portfolio</b>		
4	Management Summary	
4	Performance Update	
5	Investment Portfolio	
8	Financial Statements	
11	Financial Highlights	
<b>Capital Growth Portfolio</b>		
12	Management Summary	
12	Performance Update	
13	Investment Portfolio	
16	Financial Statements	
19	Financial Highlights	
<b>21st Century Growth Portfolio</b>		
20	Management Summary	
20	Performance Update	
21	Investment Portfolio	
24	Financial Statements	
27	Financial Highlights	
<b>Global Discovery Portfolio</b>		
28	Management Summary	
28	Performance Update	
29	Investment Portfolio	
32	Financial Statements	
35	Financial Highlights	
<b>International Portfolio</b>		
36	Management Summary	
36	Performance Update	
37	Investment Portfolio	
41	Financial Statements	
44	Financial Highlights	
<b>Health Sciences Portfolio</b>		
45	Management Summary	
45	Performance Update	
47	Investment Portfolio	
49	Financial Statements	
52	Financial Highlights	
53	Notes to Financial Statements	
58	Report of Independent Accountants	
59	Tax Information	
60	Trustees and Officers	

# Letter from the President

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Jon Baum  
President  
Scudder  
Distributors, Inc.

Dear Shareholders,

I know how easy it is, in a difficult market, to second-guess one's investment choices. And recent times are no exception. In such an environment, your continuing commitment to your Scudder investment is laudable — and I'd like to thank you for it.

No one can predict the future direction of the market. However, I remain confident that, over time, the tide will turn. Although past performance is no guarantee of future results, over time, the markets have always gone up. Just consider the past 25 years ending December 31, 2002. During that time period, the average annual returns of stocks<sup>1</sup> was 12.98 percent, the average annual return of bonds<sup>2</sup> was 9.35 percent, and the average annual returns of Treasuries<sup>3</sup> was 6.35 percent.

We're also confident that our alliance with Deutsche Bank has positioned us to take advantage of the investment opportunities the future presents.

Over the past year, we've built one of the largest research capabilities in the industry. Our new global orientation is supported by the expertise of roughly 100 sector analysts grouped into 12 different global sector teams (GSTs) around the world, as well as 28 portfolio selection teams (PSTs) consisting of senior investment professionals with several years of experience in their areas of specialization. Each GST is responsible for identifying the best potential investment opportunities within its respective sectors. PSTs then meet to discuss these recommendations and design a model portfolio. GST and PST members are all held accountable for product performance.

The result of these changes is that with the combination of Scudder Investments and Deutsche Asset Management, we did not just consolidate assets; we are providing you with investment capabilities that span geographic markets, industries, asset classes and investing styles.

As a result, we think the future is bright — and we hope you'll continue to see the long-term merits of owning variable or fixed annuity contracts as components of your diversified investment portfolio.

Thank you for your continued investment in Scudder Variable Series I.

Sincerely,



Jon Baum  
President  
Scudder Distributors, Inc.

<sup>1</sup> As represented by the Standard & Poor's (S&P) 500 Index, an unmanaged index widely regarded as representative of the equity market in general. Index returns assume reinvestment of dividends and capital gains, and unlike fund returns do not reflect fees or expenses. You cannot invest directly in the index.

<sup>2</sup> As represented by the Lehman Brothers Aggregate Bond Index, a benchmark index consisting of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million. You cannot invest directly in the index.

<sup>3</sup> As represented by US 30-day Treasury bills.

*The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time, based on market and other conditions and should not be construed as a recommendation.*

## Growth and Income Portfolio

The US stock market produced its third consecutive year of poor performance in 2002, as sluggish economic growth, corporate scandals and weak profits took a toll on investor sentiment. Though the portfolio showed poor performance in the health care sector, our stock selection with the technology, consumer discretionary and utilities sectors helped boost returns. Within technology, we stayed focused on reasonably valued companies that continued to generate growth. This approach proved helpful during a bad year for the tech sector as a whole.

In managing the portfolio, we continue to employ a disciplined three-step process that emphasizes fundamentals, valuations and risk management. Any changes we make to the portfolio are the result of this process, not top-down analysis. For example, we have recently begun to trim positions in companies that have performed well over the past few years — and have therefore grown to outsized weightings within the portfolio. We've also begun to add companies with attractive valuations whose prospects are just beginning to improve.

Looking ahead, we are confident that the portfolio is well positioned for an environment in which improving corporate earnings, low interest rates and fiscal stimulus are likely to create a stronger market backdrop.

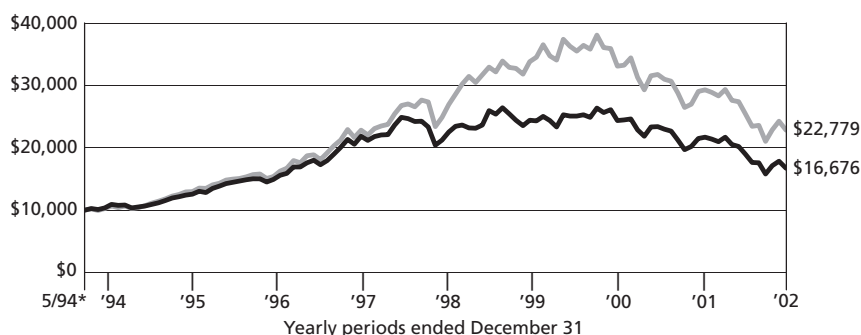
Kathleen T. Millard  
Co-Manager

Gregory S. Adams  
Co-Manager

### Growth of an Assumed \$10,000 Investment

■ Growth and Income Portfolio — Class A\*

■ S&P 500 Index



The Standard & Poor's (S&P) 500 Index is a 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 assume reinvestment of dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Growth and Income Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$7,687	\$6,676	\$7,570	\$16,676
	Average annual total return	-23.13%	-12.60%	-5.42%	6.08%
S&P 500 Index					
	Growth of \$10,000	\$7,790	\$6,239	\$9,710	\$22,779
	Average annual total return	-22.10%	-14.55%	-5.9%	9.96%
Growth and Income Portfolio		1-Year	3-Year	5-Year	Life of Portfolio**
Class B	Growth of \$10,000	\$7,660	\$6,616	\$7,464	\$9,172
	Average annual total return	-23.40%	-12.86%	-5.68%	-1.51%
S&P 500 Index					
	Growth of \$10,000	\$7,790	\$6,239	\$9,710	\$11,901
	Average annual total return	-22.10%	-14.55%	-5.9%	3.12%

\* The Portfolio commenced operations on May 2, 1994. Index comparisons begin April 30, 1994. Total returns for the Life of Portfolio period for Class A would have been lower if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced selling Class B shares on May 1, 1997. Index comparisons begin April 30, 1997.

All performance is historical, assumes reinvestment of all dividends and capital gains, and is not indicative of future results. Investment return and principal value will fluctuate, so an investor's shares, when redeemed, may be worth more or less than when purchased.

Investments in Portfolios involve risk. Some Portfolios have more risk than others. These include Portfolios that allow exposure to or otherwise concentrate investments in certain sectors, geographic regions, security types, market capitalization or foreign securities (e.g., political or economic instability, which can be accentuated in emerging market countries). Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.



## Growth and Income Portfolio

	Shares	Value (\$)
<b>Common Stocks 98.1%</b>		
<b>Consumer Discretionary 12.6%</b>		
<b>Hotel Restaurants &amp; Leisure 1.2%</b>		
MGM Mirage, Inc.*	53,300	1,757,301
<b>Internet &amp; Catalog Retailing 0.6%</b>		
Amazon.com, Inc.*	44,900	848,161
<b>Media 5.6%</b>		
AOL Time Warner, Inc.*	159,100	2,084,210
Gannett Co., Inc.	28,800	2,067,840
McGraw-Hill, Inc.	29,800	1,801,112
Viacom, Inc. "B"*	47,600	1,940,176
		<b>7,893,338</b>
<b>Multiline Retail 2.4%</b>		
Target Corp.	41,500	1,245,000
Wal-Mart Stores, Inc.	41,900	2,116,369
		<b>3,361,369</b>
<b>Specialty Retail 2.8%</b>		
Home Depot, Inc.	42,600	1,020,696
Staples, Inc.*	163,200	2,986,560
		<b>4,007,256</b>
<b>Consumer Staples 8.1%</b>		
<b>Beverages 2.8%</b>		
Anheuser-Busch Companies, Inc.	58,000	2,807,200
PepsiCo, Inc.	29,000	1,224,380
		<b>4,031,580</b>
<b>Food Products 1.5%</b>		
ConAgra Foods, Inc.	83,300	2,083,333
<b>Household Products 1.4%</b>		
Clorox Co.	47,500	1,959,375
<b>Personal Products 2.4%</b>		
Avon Products, Inc.	63,800	3,436,906
<b>Energy 6.5%</b>		
<b>Oil &amp; Gas</b>		
Anadarko Petroleum Corp.	31,800	1,523,220
ChevronTexaco Corp.	20,800	1,382,784
Exxon Mobil Corp.	129,614	4,528,713
Total Fina Elf SA (ADR)	24,290	1,736,735
		<b>9,171,452</b>
<b>Financials 19.7%</b>		
<b>Banks 7.4%</b>		
Bank of America Corp.	92,100	6,407,397
Bank One Corp.	73,500	2,686,425
Comerica, Inc.	35,100	1,517,724
		<b>10,611,546</b>
<b>Diversified Financials 7.8%</b>		
Citigroup, Inc.	139,100	4,894,929
Fannie Mae	28,300	1,820,539
Lehman Brothers Holdings, Inc.	33,900	1,806,531

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

	Shares	Value (\$)
Morgan Stanley	64,500	2,574,840
		<u>11,096,839</u>
<b>Insurance 4.5%</b>		
AMBAC Financial Group, Inc.	18,100	1,017,944
American International Group, Inc.	46,100	2,666,885
Marsh & McLennan Companies, Inc.	35,500	1,640,455
MetLife, Inc.	38,300	1,035,632
		<u>6,360,916</u>
<b>Health Care 14.0%</b>		
<b>Biotechnology 1.2%</b>		
Amgen, Inc.*	34,900	1,687,066
<b>Health Care Equipment &amp; Supplies 2.1%</b>		
Biomet, Inc.	39,350	1,127,771
Guidant Corp.*	61,200	1,888,020
		<u>3,015,791</u>
<b>Health Care Providers &amp; Services 1.8%</b>		
McKesson Corp.	53,600	1,448,808
Wellpoint Health Networks, Inc.*	15,800	1,124,328
		<u>2,573,136</u>
<b>Pharmaceuticals 8.9%</b>		
Eli Lilly & Co.	16,800	1,066,800
Johnson & Johnson	90,500	4,860,755
Merck & Co., Inc.	25,900	1,466,199
Pfizer, Inc.	170,400	5,209,128
		<u>12,602,882</u>
<b>Industrials 11.7%</b>		
<b>Aerospace &amp; Defense 2.8%</b>		
United Technologies Corp.	64,500	3,995,130
<b>Industrial Conglomerates 5.9%</b>		
3M Co.	32,000	3,945,599
General Electric Co.	179,800	4,378,130
		<u>8,323,729</u>
<b>Machinery 3.0%</b>		
Deere & Co.	29,600	1,357,160
Illinois Tool Works, Inc.	31,800	2,062,548
Parker-Hannifin Corp.	18,200	839,566
		<u>4,259,274</u>
<b>Information Technology 17.5%</b>		
<b>Communications Equipment 2.3%</b>		
Cisco Systems, Inc.*	140,300	1,837,930
Nokia Oyj (ADR)	92,600	1,435,300
		<u>3,273,230</u>
<b>Computers &amp; Peripherals 4.4%</b>		
Dell Computer Corp.*	69,500	1,858,430
International Business Machines Corp.	31,100	2,410,250
Lexmark International, Inc.*	33,500	2,026,750
		<u>6,295,430</u>
<b>IT Consulting &amp; Services 1.1%</b>		
SunGard Data Systems, Inc.*	65,500	1,543,180
<b>Semiconductor Equipment &amp; Products 2.5%</b>		
Intel Corp.	67,800	1,055,646

	Shares	Value (\$)
Texas Instruments, Inc.	167,500	2,514,175
		<u>3,569,821</u>
<b>Software 7.2%</b>		
Electronic Arts, Inc.*	20,400	1,015,308
Intuit, Inc.*	29,300	1,374,756
Microsoft Corp.*	109,000	5,635,300
Oracle Corp.*	206,700	2,232,360
		<u>10,257,724</u>
<b>Materials 3.0%</b>		
<b>Chemicals 1.0%</b>		
Dow Chemical Co.	49,000	1,455,300
<b>Paper &amp; Forest Products 2.0%</b>		
International Paper Co.	79,000	2,762,630
<b>Telecommunication Services 3.8%</b>		
<b>Diversified Telecommunication Services 2.9%</b>		
ALLTEL Corp.	28,200	1,438,200
SBC Communications, Inc.	44,680	1,211,275
Verizon Communications, Inc.	39,272	1,521,790
		<u>4,171,265</u>
<b>Wireless Telecommunication Services 0.9%</b>		
AT&T Wireless Services, Inc.*	212,500	1,200,625
<b>Utilities 1.2%</b>		
<b>Electric Utilities</b>		
FirstEnergy Corp.	25,400	837,438
FPL Group, Inc.	14,660	881,506
		<u>1,718,944</u>
<b>Total Common Stocks (Cost \$152,800,681)</b>		<b>139,324,529</b>

#### Cash Equivalents 1.9%

Scudder Cash Management QP Trust, 1.4% (b) (Cost \$2,756,536)	2,756,536	2,756,536
<b>Total Investment Portfolio — 100.0% (Cost \$155,557,217) (a)</b>		<b>142,081,065</b>

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$157,880,705. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$15,799,640. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$6,447,907 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$22,247,547.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

Purchases and sales of investment securities (excluding short-term investments), for the year ended December 31, 2002, aggregated \$111,614,391 and \$108,834,245, respectively.

At December 31, 2002, the Growth and Income Portfolio had a net tax basis capital loss carryforward of approximately \$34,898,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 (\$12,650,000) and December 31, 2010 (\$22,248,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2002 through December 31, 2002, the Growth and Income Portfolio incurred approximately \$5,221,000 of net realized capital losses. As permitted by tax regulations, the Portfolio intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2003.

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$155,557,217)	\$ 142,081,065
Dividends receivable	125,213
Receivable for Portfolio shares sold	43,449
Foreign taxes recoverable	5,774
Other assets	2,525
<b>Total assets</b>	<b>142,258,026</b>

### Liabilities

Payable for investments purchased	598,412
Payable for Portfolio shares redeemed	240,014
Accrued management fee	55,284
Other accrued expenses and payables	46,976
<b>Total liabilities</b>	<b>940,686</b>
<b>Net assets, at value</b>	<b>\$ 141,317,340</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	1,465,168
Net unrealized appreciation (depreciation) on investments	(13,476,152)
Accumulated net realized gain (loss)	(42,442,310)
Paid-in capital	195,770,634
<b>Net assets, at value</b>	<b>\$ 141,317,340</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$134,631,735 ÷ 19,882,920 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	\$ 6.77
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$6,685,605 ÷ 990,738 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	\$ 6.75
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**Statement of Operations** for the year ended December 31, 2002**Investment Income**

Income:	
Dividends (net of foreign taxes withheld of \$13,933)	\$ 2,463,405
Interest	71,774
<b>Total Income</b>	<b>2,535,179</b>
Expenses:	
Management fee	808,530
Custodian fees	16,594
Accounting fees	69,585
Distribution service fees (Class B)	20,214
Auditing	26,467
Legal	3,604
Trustees' fees and expenses	7,263
Reports to shareholders	29,887
Other	3,597
Total expenses, before expense reductions	985,741
Expense reductions	(43)
Total expenses, after expense reductions	985,698
<b>Net investment income (loss)</b>	<b>1,549,481</b>

**Realized and Unrealized Gain (Loss) on Investment Transactions**

Net realized gain (loss) from investments	(27,315,158)
Net unrealized appreciation (depreciation) during the period on investments	(20,815,347)
<b>Net gain (loss) on investment transactions</b>	<b>(48,130,505)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (46,581,024)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 1,549,481	\$ 1,733,654
Net realized gain (loss) on investment transactions	(27,315,158)	(14,749,658)
Net unrealized appreciation (depreciation) on investment transactions during the period	(20,815,347)	(10,169,732)
Net increase (decrease) in net assets resulting from operations	(46,581,024)	(23,185,736)
Distributions to shareholders from:		
Net investment income:		
Class A	(1,605,814)	(2,100,713)
Class B	(57,174)	(109,015)
Net realized gains:		
Class A	—	(3,956,573)
Class B	—	(262,846)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	49,741,869	72,967,624
Reinvestment of distributions	1,605,814	6,057,286
Cost of shares redeemed	(56,127,144)	(50,740,817)
Net increase (decrease) in net assets from Class A share transactions	(4,779,461)	28,284,093
<b>Class B</b>		
Proceeds from shares sold	1,117,081	614,981
Reinvestment of distributions	57,174	371,861
Cost of shares redeemed	(2,056,195)	(2,209,623)
Net increase (decrease) in net assets from Class B share transactions	(881,940)	(1,222,781)
<b>Increase (decrease) in net assets</b>	<b>(53,905,413)</b>	<b>(2,553,571)</b>
Net assets at beginning of period	195,222,753	197,776,324
Net assets at end of period (including undistributed net investment income of \$1,465,168 and \$1,578,675, respectively)	<b>\$ 141,317,340</b>	<b>\$ 195,222,753</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	20,820,420	17,799,855
Shares sold	6,066,477	7,936,186
Shares issued to shareholders in reinvestment of distributions	195,355	629,903
Shares redeemed	(7,199,332)	(5,545,524)
Net increase (decrease) in Portfolio shares	(937,500)	3,020,565
Shares outstanding at end of period	<b>19,882,920</b>	<b>20,820,420</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,111,138	1,253,011
Shares sold	148,089	65,482
Shares issued to shareholders in reinvestment of distributions	6,972	38,776
Shares redeemed	(275,461)	(246,131)
Net increase (decrease) in Portfolio shares	(120,400)	(141,873)
Shares outstanding at end of period	<b>990,738</b>	<b>1,111,138</b>

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

# Financial Highlights

## Growth and Income Portfolio

### Class A

Years Ended December 31,	2002	2001	2000	1999	1998
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.90	\$ 10.38	\$ 10.96	\$ 11.25	\$ 11.48
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.07	.09	.11	.22	.27
Net realized and unrealized gain (loss) on investment transactions	(2.12)	(1.23)	(.33)	.46	.54
<b>Total from investment operations</b>	<b>(2.05)</b>	<b>(1.14)</b>	<b>(.22)</b>	<b>.68</b>	<b>.81</b>
<i>Less distributions from:</i>					
Net investment income	(.08)	(.12)	(.15)	(.13)	(.25)
Net realized gains on investment transactions	—	(.22)	(.21)	(.84)	(.79)
<b>Total distributions</b>	<b>(.08)</b>	<b>(.34)</b>	<b>(.36)</b>	<b>(.97)</b>	<b>(1.04)</b>
<b>Net asset value, end of period</b>	<b>\$ 6.77</b>	<b>\$ 8.90</b>	<b>\$ 10.38</b>	<b>\$ 10.96</b>	<b>\$ 11.25</b>
Total Return (%)	(23.13)	(11.30)	(2.10)	5.80	7.18
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	135	185	185	200	184
Ratio of expenses before expense reductions (%)	.57	.57 <sup>b</sup>	.56	.55	.56
Ratio of expenses after expense reductions (%)	.57	.56 <sup>b</sup>	.56	.55	.56
Ratio of net investment income (loss) (%)	.92	.94	1.06	2.01	2.41
Portfolio turnover rate (%)	66	67	65	65	39

### Class B

Years Ended December 31,	2002	2001	2000	1999	1998
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.87	\$ 10.35	\$ 10.93	\$ 11.24	\$ 11.47
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.05	.06	.09	.19	.25
Net realized and unrealized gain (loss) on investment transactions	(2.12)	(1.23)	(.33)	.46	.54
<b>Total from investment operations</b>	<b>(2.07)</b>	<b>(1.17)</b>	<b>(.24)</b>	<b>.65</b>	<b>.79</b>
<i>Less distributions from:</i>					
Net investment income	(.05)	(.09)	(.13)	(.12)	(.23)
Net realized gains on investment transactions	—	(.22)	(.21)	(.84)	(.79)
<b>Total distributions</b>	<b>(.05)</b>	<b>(.31)</b>	<b>(.34)</b>	<b>(.96)</b>	<b>(1.02)</b>
<b>Net asset value, end of period</b>	<b>\$ 6.75</b>	<b>\$ 8.87</b>	<b>\$ 10.35</b>	<b>\$ 10.93</b>	<b>\$ 11.24</b>
Total Return (%)	(23.40)	(11.56)	(2.33)	5.48	6.95
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	7	10	13	14	14
Ratio of expenses before expense reductions (%)	.82	.82 <sup>b</sup>	.81	.80	.79
Ratio of expenses after expense reductions (%)	.82	.81 <sup>b</sup>	.81	.80	.79
Ratio of net investment income (loss) (%)	.67	.69	.81	1.76	2.20
Portfolio turnover rate (%)	66	67	65	65	39

<sup>a</sup> Based on average shares outstanding during the period.

<sup>b</sup> The ratios of operating expenses excluding costs incurred in connection with a fund complex reorganization before and after expense reductions were .56% and .56%, and .81% and .81% for Class A and Class B, respectively.

## Capital Growth Portfolio

In spite of a relatively strong fourth quarter, US equity markets declined for the third year in a row in 2002. Continued earnings warnings from high-profile companies, investor focus on negative corporate and economic news, and the threat of potential conflict in Iraq kept a turnaround at bay through most of the year. And as value stocks completed their third year of outperformance versus growth stocks, large-cap growth portfolios, such as this one, underperformed in the broad-based market decline.

While investment style was the biggest factor in the portfolio's underperformance, longer-term returns lie between those of the S&P 500 and the more growth-oriented Russell 1000 Growth Index, which is a measure of the overall large-cap growth market.

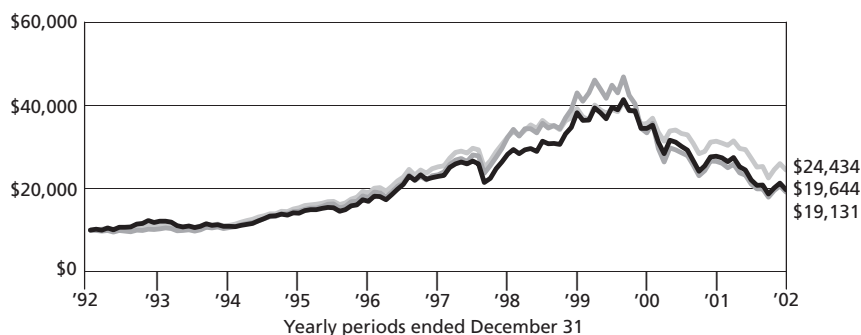
The portfolio's information technology and industrial holdings detracted from performance. Consumer staples holdings added to performance. On a relative basis, the lack of utility stocks in the portfolio also helped performance.

In December, Julie M. Van Cleave, Jack A. Zehner and Thomas J. Schmid assumed management of the portfolio. The team is realigning the portfolio, using a top-down process that is combined with in-depth company research. When the realignment is complete, the portfolio will be diversified among 70 to 90 high-quality growth stocks across most sectors.

*Portfolio Managers:* Julie M. Van Cleave Jack A. Zehner Thomas J. Schmid

### Growth of an Assumed \$10,000 Investment

- Capital Growth Portfolio — Class A
- S&P 500 Index
- Russell 1000 Growth Index



The Standard & Poor's (S&P) 500 Index is a 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. The Russell 1000 Growth Index is an unmanaged capitalization-weighted index containing those securities in the Russell 1000 Index with higher price-to-book ratios and higher forecasted-growth values. Index returns assume reinvestment of dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Capital Growth Portfolio		1-Year	3-Year	5-Year	10-Year
Class A	Growth of \$10,000	\$7,082	\$5,145	\$8,574	\$19,644
	Average annual total return	-29.18%	-19.87%	-3.03%	6.98%
S&P 500 Index	Growth of \$10,000	\$7,790	\$6,239	\$9,710	\$24,434
	Average annual total return	-22.10%	-14.55%	-5.9%	9.34%
Russell 1000 Growth Index	Growth of \$10,000	\$7,212	\$4,452	\$8,223	\$19,131
	Average annual total return	-27.88%	-23.64%	-3.84%	6.70%
Capital Growth Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class B	Growth of \$10,000	\$7,063	\$5,101	\$8,458	\$9,980
	Average annual total return	-29.37%	-20.10%	-3.29%	-0.4%
S&P 500 Index	Growth of \$10,000	\$7,790	\$6,239	\$9,710	\$11,218
	Average annual total return	-22.10%	-14.55%	-5.9%	2.08%
Russell 1000 Growth Index	Growth of \$10,000	\$7,212	\$4,452	\$8,223	\$9,344
	Average annual total return	-27.88%	-23.64%	-3.84%	-1.23%

\* The Portfolio commenced selling Class B shares on May 12, 1997. Index comparisons begin May 31, 1997. All performance is historical, assumes reinvestment of all dividends and capital gains, and is not indicative of future results. Investment return and principal value will fluctuate, so an investor's shares, when redeemed, may be worth more or less than when purchased. Investments in Portfolios involve risk. Some Portfolios have more risk than others. These include Portfolios that allow exposure to or otherwise concentrate investments in certain sectors, geographic regions, security types, market capitalization or foreign securities (e.g., political or economic instability, which can be accentuated in emerging market countries). Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.



## Capital Growth Portfolio

	Shares	Value (\$)
<b>Common Stocks 97.5%</b>		
<b>Consumer Discretionary 18.4%</b>		
<b>Automobiles 1.5%</b>		
Harley-Davidson, Inc.	185,400	8,565,480
<b>Hotel Restaurants &amp; Leisure 1.0%</b>		
International Game Technology*	74,300	5,640,856
<b>Household Durables 1.0%</b>		
Newell Rubbermaid, Inc.	181,600	5,507,928
<b>Media 5.6%</b>		
AOL Time Warner, Inc.*	446,500	5,849,150
Comcast Corp. "A"*	251,100	5,672,349
McGraw-Hill, Inc.	97,900	5,917,076
Omnicom Group, Inc.	114,700	7,409,620
Viacom, Inc. "B"*	165,400	6,741,704
		<b>31,589,899</b>
<b>Multiline Retail 5.9%</b>		
Kohl's Corp.*	122,000	6,825,900
Target Corp.	359,700	10,791,000
Wal-Mart Stores, Inc.	301,400	15,223,714
		<b>32,840,614</b>
<b>Specialty Retail 3.4%</b>		
Home Depot, Inc.	437,150	10,474,114
Staples, Inc.*	239,600	4,384,680
TJX Companies, Inc.	210,900	4,116,768
		<b>18,975,562</b>
<b>Consumer Staples 8.6%</b>		
<b>Beverages 3.1%</b>		
Coca-Cola Co.	128,700	5,639,634
PepsiCo, Inc.	275,700	11,640,054
		<b>17,279,688</b>
<b>Food &amp; Drug Retailing 1.0%</b>		
Walgreen Co.	198,300	5,788,377
<b>Household Products 4.5%</b>		
Colgate-Palmolive Co.	268,400	14,072,212
Procter & Gamble Co.	130,600	11,223,764
		<b>25,295,976</b>
<b>Energy 8.7%</b>		
<b>Energy Equipment &amp; Services 4.5%</b>		
Baker Hughes, Inc.	88,300	2,842,377
Nabors Industries Ltd.*	320,000	11,286,400
Noble Corp.*	80,700	2,836,605
Schlumberger Ltd.	197,700	8,321,193
		<b>25,286,575</b>
<b>Oil &amp; Gas 4.2%</b>		
Anadarko Petroleum Corp.	214,800	10,288,920
ConocoPhillips	116,300	5,627,757
EOG Resources, Inc.	195,700	7,812,344
		<b>23,729,021</b>

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

	Shares	Value (\$)
<b>Financials 11.6%</b>		
<b>Banks 1.3%</b>		
Bank of America Corp.	104,700	7,283,979
<b>Diversified Financials 7.2%</b>		
American Express Co.	254,500	8,996,575
Citigroup, Inc.	277,733	9,773,424
Fannie Mae	169,700	10,916,801
Morgan Stanley	139,500	5,568,840
State Street Corp.	142,700	5,565,300
		<u>40,820,940</u>
<b>Insurance 3.1%</b>		
American International Group, Inc.	184,502	10,673,441
Marsh & McLennan Companies, Inc.	142,100	6,566,441
		<u>17,239,882</u>
<b>Health Care 21.1%</b>		
<b>Biotechnology 1.9%</b>		
Genentech, Inc.*	191,000	6,333,560
Gilead Sciences, Inc.*	123,900	4,212,600
		<u>10,546,160</u>
<b>Health Care Equipment &amp; Supplies 4.0%</b>		
Baxter International, Inc.	208,900	5,849,200
Medtronic, Inc.	245,100	11,176,560
Zimmer Holdings, Inc.*	139,390	5,787,473
		<u>22,813,233</u>
<b>Health Care Providers &amp; Services 2.1%</b>		
Laboratory Corp. of America Holdings*	277,500	6,449,100
UnitedHealth Group, Inc.	61,800	5,160,300
		<u>11,609,400</u>
<b>Pharmaceuticals 13.1%</b>		
Abbott Laboratories	311,200	12,448,000
Eli Lilly & Co.	188,500	11,969,750
Johnson & Johnson	362,500	19,469,875
Merck & Co., Inc.	120,200	6,804,522
Pfizer, Inc.	745,875	22,801,399
		<u>73,493,546</u>
<b>Industrials 7.5%</b>		
<b>Aerospace &amp; Defense 1.8%</b>		
United Technologies Corp.	166,900	10,337,786
<b>Air Freight &amp; Logistics 0.5%</b>		
FedEx Corp.	54,200	2,938,724
<b>Commercial Services &amp; Supplies 1.5%</b>		
Concord EFS, Inc.*	144,300	2,271,282
Fiserv, Inc.*	173,400	5,886,930
		<u>8,158,212</u>
<b>Industrial Conglomerates 3.7%</b>		
3M Co.	35,600	4,389,480
General Electric Co.	670,300	16,321,805
		<u>20,711,285</u>
<b>Information Technology 18.9%</b>		
<b>Communications Equipment 1.9%</b>		
Cisco Systems, Inc.*	822,500	10,774,750

	Shares	Value (\$)
<b>Computers &amp; Peripherals 3.8%</b>		
EMC Corp.*	619,500	3,803,730
International Business Machines Corp.	228,300	17,693,250
		<b>21,496,980</b>
<b>Semiconductor Equipment &amp; Products 6.2%</b>		
Applied Materials, Inc.*	648,500	8,449,955
Intel Corp.	941,700	14,662,269
Linear Technology Corp.	212,500	5,465,500
Texas Instruments, Inc.	419,300	6,293,693
		<b>34,871,417</b>
<b>Software 7.0%</b>		
Acclaim Entertainment, Inc.*	10,284	—
Electronic Arts, Inc.*	76,000	3,782,520
Microsoft Corp.*	483,300	24,986,610
Oracle Corp.*	539,300	5,824,440
PeopleSoft, Inc.*	154,000	2,818,200
VERITAS Software Corp.*	107,700	1,682,274
		<b>39,094,044</b>
<b>Materials 0.8%</b>		
<b>Chemicals</b>		
Ecolab, Inc.	90,700	4,489,650
<b>Telecommunication Services 1.9%</b>		
<b>Diversified Telecommunication Services 1.2%</b>		
Verizon Communications, Inc.	179,600	6,959,500
<b>Wireless Telecommunication Services 0.7%</b>		
AT&T Wireless Services, Inc.*	681,300	3,849,345
<b>Total Common Stocks</b> (Cost \$652,191,236)		<b>547,988,809</b>
<b>Cash Equivalents 2.5%</b>		
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$13,840,611)	13,840,611	13,840,611
<b>Total Investment Portfolio — 100.0%</b> (Cost \$666,031,847) (a)		<b>561,829,420</b>

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$666,973,333. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$105,143,913. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$34,357,967 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$139,501,880.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

Purchases and sales of investment securities (excluding short-term investments), for the year ended December 31, 2002, aggregated \$172,365,990 and \$205,143,914, respectively.

At December 31, 2002 the Capital Growth Portfolio had a net tax basis capital loss carryforward of approximately \$139,068,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 (\$18,038,000) and December 31, 2010 (\$121,030,000), the respective expiration dates, whichever occurs first.

From November 1, 2002 through December 31, 2002, the Capital Growth Portfolio incurred approximately \$51,516,000 of net realized capital losses. As permitted by tax regulations, the Portfolio intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2003.

# Financial Statements

## Capital Growth Portfolio

### Statement of Assets and Liabilities as of December 31, 2002

#### Assets

Investments in securities, at value (cost \$666,031,847)	\$ 561,829,420
Dividends receivable	513,044
Receivable for Portfolio shares sold	99,425
Other assets	4,320
<b>Total assets</b>	<b>562,446,209</b>

#### Liabilities

Payable for investments purchased	3,116,123
Payable for Portfolio shares redeemed	279,379
Accrued management fee	227,835
Other accrued expenses and payables	57,896
<b>Total liabilities</b>	<b>3,681,233</b>
<b>Net assets, at value</b>	<b>\$ 558,764,976</b>

#### Net Assets

Net assets consist of:	
Undistributed net investment income	2,456,756
Net unrealized appreciation (depreciation) on investments	(104,202,427)
Accumulated net realized gain (loss)	(191,525,060)
Paid-in capital	852,035,707
<b>Net assets, at value</b>	<b>\$ 558,764,976</b>

#### Class A

<b>Net Asset Value</b> , offering and redemption price per share ( $\$557,872,906 \div 48,337,865$ outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	\$ 11.54
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#### Class B

<b>Net Asset Value</b> , offering and redemption price per share ( $\$892,070 \div 77,608$ outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	\$ 11.49
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**Statement of Operations** for the year ended December 31, 2002**Investment Income**

Income:	
Dividends	\$ 5,868,405
Interest	321,461
<b>Total Income</b>	<b>6,189,866</b>
Expenses:	
Management fee	3,274,898
Custodian fees	34,227
Accounting fees	116,650
Distribution fees (Class B)	1,484
Auditing	26,772
Legal	19,087
Trustees' fees and expenses	20,337
Reports to shareholders	32,474
Other	36,433
Total expenses, before expense reductions	3,562,362
Expense reductions	(33)
Total expenses, after expense reductions	3,562,329
<b>Net investment income (loss)</b>	<b>2,627,537</b>

**Realized and Unrealized Gain (Loss) on Investment Transactions**

Net realized gain (loss) from investments	(158,812,793)
Net unrealized appreciation (depreciation) during the period on investments	(93,657,671)
<b>Net gain (loss) on investment transactions</b>	<b>(252,470,464)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (249,842,927)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 2,627,537	\$ 2,444,330
Net realized gain (loss) on investment transactions	(158,812,793)	(31,976,606)
Net unrealized appreciation (depreciation) on investment transactions during the period	(93,657,671)	(187,067,213)
Net increase (decrease) in net assets resulting from operations	(249,842,927)	(216,599,489)
Distributions to shareholders from:		
Net investment income:		
Class A	(2,359,009)	(3,672,763)
Class B	(321)	(1,237)
Net realized gains:		
Class A	—	(116,304,156)
Class B	—	(113,211)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	157,255,646	227,496,956
Reinvestment of distributions	2,359,009	119,976,919
Cost of shares redeemed	(215,777,844)	(271,501,874)
Net increase (decrease) in net assets from Class A share transactions	(56,163,189)	75,972,001
<b>Class B</b>		
Proceeds from shares sold	524,737	89,688
Reinvestment of distributions	321	114,448
Cost of shares redeemed	(117,694)	(319,464)
Net increase (decrease) in net assets from Class B share transactions	407,364	(115,328)
<b>Increase (decrease) in net assets</b>	<b>(307,958,082)</b>	<b>(260,834,183)</b>
Net assets at beginning of period	866,723,058	1,127,557,241
Net assets at end of period (including undistributed net investment income of \$2,456,756 and \$2,188,549, respectively)	<b>\$ 558,764,976</b>	<b>\$ 866,723,058</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	52,934,260	48,831,124
Shares sold	11,277,302	12,656,460
Shares issued to shareholders in reinvestment of distributions	160,695	6,460,793
Shares redeemed	(16,034,392)	(15,014,117)
Net increase (decrease) in Portfolio shares	(4,596,395)	4,103,136
Shares outstanding at end of period	<b>48,337,865</b>	<b>52,934,260</b>
<b>Class B</b>		
Shares outstanding at beginning of period	43,484	50,385
Shares sold	43,275	4,946
Shares issued to shareholders in reinvestment of distributions	22	6,170
Shares redeemed	(9,173)	(18,017)
Net increase (decrease) in Portfolio shares	34,124	(6,901)
Shares outstanding at end of period	<b>77,608</b>	<b>43,484</b>

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

# Financial Highlights

## Capital Growth Portfolio

### Class A

Years Ended December 31,	2002	2001	2000	1999	1998
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 16.36</b>	<b>\$ 23.07</b>	<b>\$ 29.13</b>	<b>\$ 23.95</b>	<b>\$ 20.63</b>
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.05	.05	.08	.10	.16
Net realized and unrealized gain (loss) on investment transactions	(4.82)	(4.21)	(2.63)	7.64	4.46
<b>Total from investment operations</b>	<b>(4.77)</b>	<b>(4.16)</b>	<b>(2.55)</b>	<b>7.74</b>	<b>4.62</b>
<i>Less distributions from:</i>					
Net investment income	(.05)	(.08)	(.07)	(.07)	(.17)
Net realized gains on investment transactions	—	(2.47)	(3.44)	(2.49)	(1.13)
<b>Total distributions</b>	<b>(.05)</b>	<b>(2.55)</b>	<b>(3.51)</b>	<b>(2.56)</b>	<b>(1.30)</b>
<b>Net asset value, end of period</b>	<b>\$ 11.54</b>	<b>\$ 16.36</b>	<b>\$ 23.07</b>	<b>\$ 29.13</b>	<b>\$ 23.95</b>
Total Return (%)	(29.18)	(19.36)	(9.90)	35.23	23.23
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	558	866	1,126	1,254	901
Ratio of expenses before expense reductions (%)	.51	.52 <sup>b</sup>	.49	.49	.50
Ratio of expenses after expense reductions (%)	.51	.50 <sup>b</sup>	.49	.49	.50
Ratio of net investment income (loss) (%)	.38	.27	.30	.43	.75
Portfolio turnover rate (%)	25	33	55	66	55

### Class B

Years Ended December 31,	2002	2001	2000	1999	1998
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 16.29</b>	<b>\$ 23.00</b>	<b>\$ 29.05</b>	<b>\$ 23.92</b>	<b>\$ 20.61</b>
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.02	.00*	.01	.04	.11
Net realized and unrealized gain (loss) on investment transactions	(4.81)	(4.21)	(2.62)	7.62	4.45
<b>Total from investment operations</b>	<b>(4.79)</b>	<b>(4.21)</b>	<b>(2.61)</b>	<b>7.66</b>	<b>4.56</b>
<i>Less distributions from:</i>					
Net investment income	(.01)	(.03)	—	(.04)	(.12)
Net realized gains on investment transactions	—	(2.47)	(3.44)	(2.49)	(1.13)
<b>Total distributions</b>	<b>(.01)</b>	<b>(2.50)</b>	<b>(3.44)</b>	<b>(2.53)</b>	<b>(1.25)</b>
<b>Net asset value, end of period</b>	<b>\$ 11.49</b>	<b>\$ 16.29</b>	<b>\$ 23.00</b>	<b>\$ 29.05</b>	<b>\$ 23.92</b>
Total Return (%)	(29.37)	(19.64)	(10.13)	34.88	22.94
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	.89	.71	1.16	1.28	.83
Ratio of expenses before expense reductions (%)	.76	.77 <sup>b</sup>	.74	.74	.75
Ratio of expenses after expense reductions (%)	.76	.75 <sup>b</sup>	.74	.74	.75
Ratio of net investment income (loss) (%)	.13	.02	.05	.18	.49
Portfolio turnover rate (%)	25	33	55	66	55

<sup>a</sup> Based on average shares outstanding during the period.

<sup>b</sup> The ratios of operating expenses excluding costs incurred in connection with the reorganization before and after expense reductions were .50% and .50%, and .75% and .75% for Class A and Class B, respectively.

\* Less than \$.005 per share

## 21st Century Growth Portfolio

Stock-selection setbacks, particularly in health care and information technology, led to weak results in the fourth quarter. American Medical Holdings, one of the portfolio's largest holdings, was a significant detractor from overall portfolio performance for the quarterly period. Additionally, even though the market exhibited renewed strength in technology stocks during the quarter, several of the fund's holdings in this sector hurt performance, as did select industrials positions. Some stocks with more defensive qualities such as consumer discretionary and utility holdings marginally offset some of the damage.

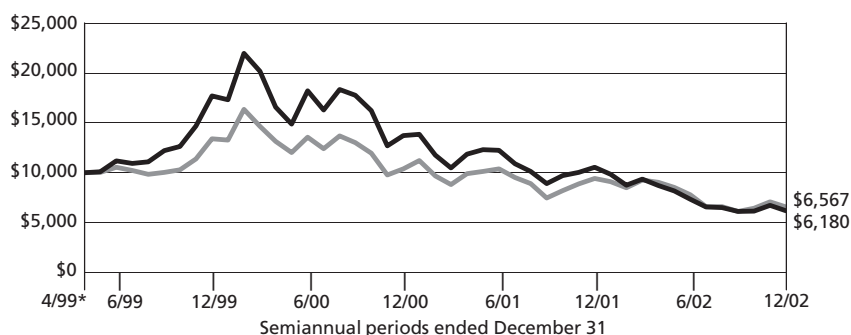
Small-cap stocks rallied in October and November, but then sputtered in December as the US economic recovery limped along, consumer confidence fell and the threat of potential conflict in Iraq increased. In addition, investors remained skeptical about corporate strategy and business forecasts amid increased scrutiny of corporate governance and management practices in many industries. The new portfolio management team that took the helm in November has been carefully reviewing the portfolio and the portfolio's investment discipline. The team is positioning the portfolio to focus on those companies that are well positioned to grow over the next three to five years regardless of the overall economy.

Audrey M.T. Jones      Samuel A. Dedio      Doris R. Klug  
*Co-Managers*

### Growth of an Assumed \$10,000 Investment

■ 21st Century Growth Portfolio — Class A

■ Russell 2000 Growth Index



The Russell 2000 Growth Index is an unmanaged capitalization-weighted measure of 2,000 of the smallest capitalized US companies with a greater-than-average growth orientation and whose common stocks trade on the NYSE, AMEX, and Nasdaq. Index returns assume reinvestment of dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

	1-Year	3-Year	Life of Portfolio
<b>21st Century Growth Portfolio*</b>			
<b>Class A</b>			
Growth of \$10,000	\$5,875	\$3,498	\$6,180
Average annual total return	-41.25%	-29.54%	-12.31%
<b>Class B</b>			
Growth of \$10,000	\$5,886	\$3,476	\$6,113
Average annual total return	-41.14%	-29.69%	-12.57%
<b>Russell 2000 Growth Index</b>			
Growth of \$10,000	\$6,974	\$4,910	\$6,567
Average annual total return	-30.26%	-21.11%	-10.84%

\* The Portfolio commenced operations on May 3, 1999. Index comparisons begin April 30, 1999.

All performance is historical, assumes reinvestment of all dividends and capital gains, and is not indicative of future results. Investment return and principal value will fluctuate, so an investor's shares, when redeemed, may be worth more or less than when purchased. Total returns for the 3-year and Life of Portfolio periods for Class A and B shares would have been lower if the Portfolio's expenses were not maintained.

Investments in Portfolios involve risk. Some Portfolios have more risk than others. These include Portfolios that allow exposure to or otherwise concentrate investments in certain sectors, geographic regions, security types, market capitalization or foreign securities (e.g., political or economic instability, which can be accentuated in emerging market countries). Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.



## 21st Century Growth Portfolio

	Shares	Value (\$)
<b>Common Stocks 89.0%</b>		
<b>Consumer Discretionary 17.9%</b>		
<b>Hotel Restaurants &amp; Leisure 4.9%</b>		
Alliance Gaming Corp.*	11,900	202,657
California Pizza Kitchen, Inc.*	24,400	614,880
Landry's Seafood Restaurants, Inc.	18,900	401,436
Shuffle Master, Inc.*	21,300	407,043
		<b>1,626,016</b>
<b>Internet &amp; Catalog Retailing 1.0%</b>		
Alloy, Inc.*	31,500	344,925
<b>Media 2.0%</b>		
Radio One, Inc. "D"*	45,300	653,679
<b>Specialty Retail 7.9%</b>		
Advance Auto Parts, Inc.*	8,400	410,760
Copart, Inc.*	83,600	989,824
Hancock Fabrics, Inc.	22,300	340,075
Too, Inc.*	38,900	914,928
		<b>2,655,587</b>
<b>Textiles, Apparel &amp; Luxury Goods 2.1%</b>		
Brown Shoe Co., Inc.	14,900	355,067
Gildan Activewear, Inc.*	14,800	346,468
		<b>701,535</b>
<b>Consumer Staples 3.4%</b>		
<b>Beverages 1.1%</b>		
Constellation Brands, Inc. "A"*	15,100	358,021
<b>Food &amp; Drug Retailing 2.1%</b>		
Performance Food Group Co.*	10,400	353,174
United Natural Foods, Inc.*	14,000	354,900
		<b>708,074</b>
<b>Food Products 0.2%</b>		
Peets Coffee & Tea, Inc.*	4,400	62,172
<b>Energy 7.5%</b>		
<b>Energy Equipment &amp; Services 2.5%</b>		
FMC Technologies, Inc.*	13,700	279,891
Unit Corp.*	29,800	552,790
		<b>832,681</b>
<b>Oil &amp; Gas 5.0%</b>		
Pioneer Natural Resources Co.*	39,800	1,004,950
Spinnaker Exploration Co.*	15,500	341,775
Westport Resources Corp.*	16,500	343,200
		<b>1,689,925</b>
<b>Financials 8.7%</b>		
<b>Banks 4.7%</b>		
First Niagara Financial Group, Inc.*	11,600	302,992
Texas Regional Bancshares, Inc. "A"	4,700	167,043
UCBH Holdings, Inc.	26,200	1,112,190
		<b>1,582,225</b>
<b>Diversified Financials 0.1%</b>		
Chicago Mercantile Exchange	700	30,562

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

	Shares	Value (\$)
<b>Insurance 3.9%</b>		
Philadelphia Consolidated Holding Corp.*	19,700	697,380
Platinum Underwriters Holdings Ltd.*	4,400	115,940
Triad Guaranty, Inc.*	12,800	471,808
		<b>1,285,128</b>
<b>Health Care 22.6%</b>		
<b>Biotechnology 8.3%</b>		
Alexion Pharmaceuticals, Inc.*	16,900	238,628
Celgene Corp.*	21,400	459,458
Charles River Laboratories International, Inc.*	35,200	1,354,496
Genta, Inc.*	82,900	637,501
NeoPharm, Inc.*	10,100	102,414
		<b>2,792,497</b>
<b>Health Care Equipment &amp; Supplies 5.9%</b>		
American Medical Systems Holdings, Inc.*	25,200	408,492
Cytoc Corp.*	34,900	355,980
Integra LifeSciences Holdings Corp.*	16,900	298,285
Kyphon, Inc.*	29,500	251,930
SurModics, Inc.*	23,400	671,112
		<b>1,985,799</b>
<b>Health Care Providers &amp; Services 6.6%</b>		
Accredo Health, Inc.*	25,950	914,736
Apria Healthcare Group, Inc.*	17,600	391,424
CryoLife, Inc.*	37,800	258,174
Omnicell, Inc.*	1,500	3,975
Province Healthcare Co.*	36,650	356,605
Unilab Corp.*	15,000	274,500
		<b>2,199,414</b>
<b>Pharmaceuticals 1.8%</b>		
NPS Pharmaceuticals, Inc.*	23,900	601,563
<b>Industrials 11.9%</b>		
<b>Aerospace &amp; Defense 1.1%</b>		
Invision Technologies, Inc.*	14,100	371,676
<b>Airlines 2.2%</b>		
JetBlue Airways Corp.*	10,050	271,350
SkyWest, Inc.	36,100	471,827
		<b>743,177</b>
<b>Building Products 2.3%</b>		
Simpson Manufacturing Co., Inc.*	23,300	766,570
<b>Commercial Services &amp; Supplies 3.2%</b>		
Career Education Corp.*	8,900	356,000
CoStar Group, Inc.*	38,500	710,325
		<b>1,066,325</b>
<b>Construction &amp; Engineering 1.0%</b>		
Insituform Technologies, Inc.*	20,500	349,525
<b>Road &amp; Rail 2.1%</b>		
Heartland Express, Inc.	30,264	693,379
<b>Information Technology 16.7%</b>		
<b>Communications Equipment 6.5%</b>		
Adaptec, Inc.*	84,000	474,600
Harris Corp.	16,300	428,690
NetScreen Technologies, Inc.*	18,700	314,908

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

	Shares	Value (\$)
UTStarcom, Inc.*	47,800	947,874
		<u>2,166,072</u>
<b>Electronic Equipment &amp; Instruments 1.1%</b>		
Identix, Inc.*	70,421	362,668
<b>Internet Software &amp; Services 1.8%</b>		
WebEx Communications, Inc.*	41,300	619,500
<b>Semiconductor Equipment &amp; Products 2.0%</b>		
ATMI, Inc.*	18,800	348,176
Cree, Inc.*	19,600	320,460
		<u>668,636</u>
<b>Software 5.3%</b>		
Epiq Systems, Inc.*	34,700	529,869
NetIQ Corp.*	25,400	313,690
SkillSoft PLC (ADR)*	74,300	204,325
Take-Two Interactive Software, Inc.*	13,000	305,370
THQ, Inc.*	26,950	357,088
Witness Systems, Inc.*	17,500	60,200
		<u>1,770,542</u>
<b>Telecommunication Services 0.3%</b>		
<b>Wireless Telecommunication Services</b>		
Triton PCS Holdings, Inc. "A"*	26,300	103,359
<b>Total Common Stocks (Cost \$33,854,687)</b>		<b>29,791,232</b>

#### Cash Equivalents 11.0%

Scudder Cash Management QP Trust, 1.4% (b) (Cost \$3,675,116)	3,675,116	3,675,116
<b>Total Investment Portfolio — 100.0% (Cost \$37,529,803) (a)</b>		<b>33,466,348</b>

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$37,660,089. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$4,193,741. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$1,824,048 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$6,017,789.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

Purchases and sales of investment securities (excluding short-term investments), for the year ended December 31, 2002, aggregated \$35,614,433 and \$26,227,937, respectively.

At December 31, 2002, the 21st Century Growth Portfolio had a net tax basis capital loss carryforward of approximately \$22,643,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2008 (\$1,217,000), December 31, 2009 (\$12,192,000) and December 31, 2010 (\$9,234,000) the respective expiration dates, whichever occurs first.

In addition, from November 1, 2002 through December 31, 2002, the Fund incurred approximately \$5,288,000 of net realized capital losses. As permitted by tax regulations, the Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2003.

# Financial Statements

## 21st Century Growth Portfolio

### Statement of Assets and Liabilities as of December 31, 2002

#### Assets

Investments in securities, at value (cost \$37,529,803)	\$	33,466,348
Receivable for investments sold		384,411
Dividends receivable		4,325
Receivable for Portfolio shares sold		7,877
Other assets		542
<b>Total assets</b>		<b>33,863,503</b>

#### Liabilities

Payable for investments purchased		98,204
Payable for Portfolio shares redeemed		25,816
Accrued management fee		25,694
Other accrued expenses and payables		41,298
<b>Total liabilities</b>		<b>191,012</b>

**Net assets, at value** **\$ 33,672,491**

#### Net Assets

Net assets consist of:		
Net unrealized appreciation (depreciation) on investment securities		(4,063,455)
Accumulated net realized gain (loss)		(28,062,190)
Paid-in capital		65,798,136
<b>Net assets, at value</b>	<b>\$</b>	<b>33,672,491</b>

#### Net Asset Value

##### Class A

**Net Asset Value**, offering and redemption price per share ( $\$33,512,045 \div 9,153,467$  outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) **\$ 3.66**

##### Class B

**Net Asset Value**, offering and redemption price per share ( $\$160,446 \div 44,351$  outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) **\$ 3.62**

**Statement of Operations** for the year ended December 31, 2002**Investment Income**

Income:		
Dividends (net of foreign taxes withheld of \$543)	\$	32,270
Interest		58,182
<b>Total Income</b>		<b>90,452</b>
Expenses:		
Management fee		343,247
Custodian fees		9,781
Accounting fees		42,245
Distribution service fees (Class B)		30
Auditing		12,833
Legal		2,461
Trustees' fees and expenses		4,066
Reports to shareholders		17,126
Registration fees		963
Other		1,707
Total expenses, before expense reductions		434,459
Expense reductions		(112)
Total expenses, after expense reductions		434,347
<b>Net investment income (loss)</b>		<b>(343,895)</b>

**Realized and Unrealized Gain (Loss) on Investment Transactions**

Net realized gain (loss) from investments		(13,981,457)
Net unrealized appreciation (depreciation) during the period on investments		(7,611,269)
<b>Net gain (loss) on investment transactions</b>		<b>(21,592,726)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$</b>	<b>(21,936,621)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ (343,895)	\$ (199,240)
Net realized gain (loss) on investment transactions	(13,981,457)	(10,622,752)
Net unrealized appreciation (depreciation) on investment transactions during the period	(7,611,269)	3,751,550
Net increase (decrease) in net assets resulting from operations	(21,936,621)	(7,070,442)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	21,627,664	49,939,921
Cost of shares redeemed	(10,758,573)	(24,704,439)
Net increase (decrease) in net assets from Class A share transactions	10,869,091	25,235,482
<b>Class B</b>		
Proceeds from shares sold	171,863	—
Cost of shares redeemed	(6,118)	—
Net increase (decrease) in net assets from Class B share transactions	165,745	—
<b>Increase (decrease) in net assets</b>	(10,901,785)	18,165,040
Net assets at beginning of period	44,574,276	26,409,236
Net assets at end of period	<b>\$ 33,672,491</b>	<b>\$ 44,574,276</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	7,152,255	3,253,589
Shares sold	4,412,802	7,656,411
Shares redeemed	(2,411,590)	(3,757,745)
Net increase (decrease) in Portfolio shares	2,001,212	3,898,666
Shares outstanding at end of period	<b>9,153,467</b>	<b>7,152,255</b>
<b>Class B</b>		
Shares outstanding at beginning of period	101	101
Shares sold	45,909	—
Shares redeemed	(1,659)	—
Net increase (decrease) in Portfolio shares	44,250	—
Shares outstanding at end of period	<b>44,351</b>	<b>101</b>

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

# Financial Highlights

## 21st Century Growth Portfolio

### Class A

Years Ended December 31,	2002	2001	2000	1999 <sup>a</sup>
<b>Selected Per Share Data</b>				
Net asset value, beginning of period	\$ 6.23	\$ 8.12	\$ 10.55	\$ 6.00 <sup>b</sup>
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>c</sup>	(.04)	(.04)	(.11)	(.04)
Net realized and unrealized gain (loss) on investment transactions	(2.53)	(1.85)	(2.20)	4.59
<b>Total from investment operations</b>	<b>(2.57)</b>	<b>(1.89)</b>	<b>(2.31)</b>	<b>4.55</b>
<i>Less distributions from:</i>				
Net realized gains on investment transactions	—	—	(.12)	—
<b>Net asset value, end of period</b>	<b>\$ 3.66</b>	<b>\$ 6.23</b>	<b>\$ 8.12</b>	<b>\$ 10.55</b>
Total Return (%)	(41.25)	(23.28) <sup>d</sup>	(22.39) <sup>d</sup>	75.83 <sup>d**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>				
Net assets, end of period (\$ millions)	34	45	26	15
Ratio of expenses before expense reductions (%)	1.11	1.17 <sup>e</sup>	1.35	2.90 <sup>*</sup>
Ratio of expenses after expense reductions (%)	1.11	1.15 <sup>e</sup>	1.29	1.50 <sup>*</sup>
Ratio of net investment income (loss) (%)	(.88)	(.64)	(1.06)	(.95) <sup>*</sup>
Portfolio turnover rate (%)	72	103	109	61

### Class B

Years Ended December 31,	2002	2001	2000	1999 <sup>a</sup>
<b>Selected Per Share Data</b>				
Net asset value, beginning of period	\$ 6.15	\$ 8.04	\$ 10.51	\$ 6.00 <sup>b</sup>
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>c</sup>	(.05)	(.06)	(.13)	(.06)
Net realized and unrealized gain (loss) on investment transactions	(2.48)	(1.83)	(2.22)	4.57
<b>Total from investment operations</b>	<b>(2.53)</b>	<b>(1.89)</b>	<b>(2.35)</b>	<b>4.51</b>
<i>Less distributions from:</i>				
Net realized gains on investment transactions	—	—	(.12)	—
<b>Net asset value, end of period</b>	<b>\$ 3.62</b>	<b>\$ 6.15</b>	<b>\$ 8.04</b>	<b>\$ 10.51</b>
Total Return (%)	(41.14)	(23.51) <sup>d</sup>	(22.79) <sup>d</sup>	75.17 <sup>d**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>				
Net assets, end of period (\$ millions)	.16	— <sup>***</sup>	— <sup>***</sup>	— <sup>***</sup>
Ratio of expenses before expense reductions (%)	1.36	1.42 <sup>e</sup>	1.60	3.15 <sup>*</sup>
Ratio of expenses after expense reductions (%)	1.36	1.40 <sup>e</sup>	1.54	1.75 <sup>*</sup>
Ratio of net investment income (loss) (%)	(1.13)	(.89)	(1.31)	(1.20) <sup>*</sup>
Portfolio turnover rate (%)	72	103	109	61

<sup>a</sup> For the period May 3, 1999 (commencement of operations) to December 31, 1999.

<sup>b</sup> Original capital.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

<sup>e</sup> The ratios of operating expenses excluding costs incurred in connection with the reorganization before and after expense reductions were 1.16% and 1.15%, and 1.41% and 1.40% for Class A and Class B, respectively.

<sup>\*</sup> Annualized

<sup>\*\*</sup> Not annualized

<sup>\*\*\*</sup> Net assets less than one million

## Global Discovery Portfolio

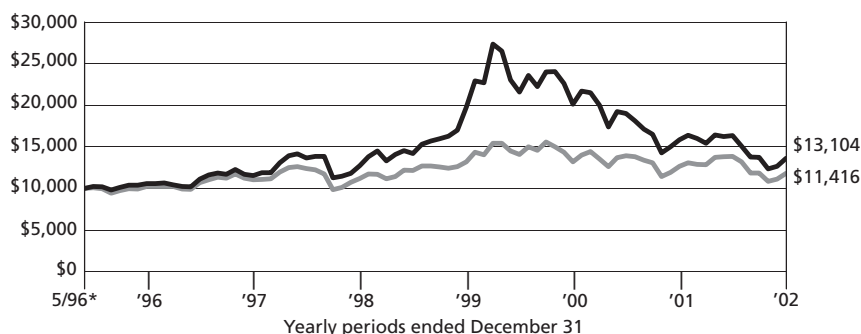
Global equities fell in 2002 for the third consecutive year. There was no news from Europe or Japan to suggest that the burden of driving the global economy would be shared with the United States. On the contrary, as Japan edged tantalizingly closer to dealing with the problems within its financial system and as authorities attempted to talk down the yen, we were again reminded that so much depends on the United States and on the US dollar, which reached a three-year low against the euro over the past year.

Scudder Global Discovery Portfolio Class A shares fell 19.89 percent for the annual period. The portfolio's under-performance continues to stem primarily from its growth bias. While value stocks took more of a back seat during the second half of the year, for the overall period, global markets were tilted toward value. Several technology-related holdings detracted from performance. Semiconductor chip-maker ARM Holdings, for example, took a hit in the fourth quarter due to a lack of license renewals, which hurt overall performance for the year. Likewise, Symbol Technologies, a developer of bar-code scanners, fell hard enough early on in the year to hurt performance for the entire annual period. Select industrials and consumer discretionary holdings were also detractors. On the other hand, financials, particularly Irish financials, helped to offset some of the damage. On a positive note, as markets have grown more hospitable toward our investment style, the portfolio has outpaced the benchmark more recently.

Joseph Axtell                      Gerald J. Moran  
Co-Managers

### Growth of an Assumed \$10,000 Investment

- Global Discovery Portfolio — Class A\*
- Salomon Smith Barney World Equity EMI



The Salomon Smith Barney World Equity Extended Market Index is an unmanaged small capitalization stock universe of 22 countries. Index returns assume reinvestment of dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Global Discovery Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$8,011	\$5,722	\$11,052	\$13,104
	Average annual total return	-19.89%	-16.98%	2.02%	4.14%
Salomon Smith Barney World Equity EMI	Growth of \$10,000	\$8,750	\$7,971	\$10,329	\$11,416
	Average annual total return	-12.50%	-7.28%	.65%	2.00%
Global Discovery Portfolio		1-Year	3-Year	5-Year	Life of Portfolio**
Class B	Growth of \$10,000	\$7,993	\$5,673	\$10,917	\$12,449
	Average annual total return	-20.07%	-17.22%	1.77%	3.94%
Salomon Smith Barney World Equity EMI	Growth of \$10,000	\$8,750	\$7,971	\$10,329	\$11,564
	Average annual total return	-12.50%	-7.28%	.65%	2.59%

\* The Portfolio commenced operations on May 1, 1996. Index comparisons begin April 30, 1996.

\*\* The Portfolio commenced selling Class B shares on May 2, 1997. Index comparisons begin April 30, 1997.

All performance is historical, assumes reinvestment of all dividends and capital gains, and is not indicative of future results. Investment return and principal value will fluctuate, so an investor's shares, when redeemed, may be worth more or less than when purchased. Total returns for 5-year and Life of Portfolio periods for Class A and B shares would have been lower if the Portfolio's expenses were not maintained.

Investments in Portfolios involve risk. Some Portfolios have more risk than others. These include Portfolios that allow exposure to or otherwise concentrate investments in certain sectors, geographic regions, security types, market capitalization or foreign securities (e.g., political or economic instability, which can be accentuated in emerging market countries). Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.



## Global Discovery Portfolio

	Shares	Value (\$)
<b>Common Stocks 95.3%</b>		
<b>Australia 1.9%</b>		
Aristocrat Leisure Ltd.	293,056	769,070
Macquarie Bank Ltd.	79,411	1,050,901
QBE Insurance Group Ltd.	117,844	538,561
		<u>2,358,532</u>
<b>Brazil 0.3%</b>		
Empresa Brasileira de Aeronautica SA (ADR)	28,718	456,616
<b>Denmark 0.9%</b>		
Group 4 Falck AS*	53,400	1,128,844
<b>France 6.9%</b>		
Autoroutes du Sud de la France*	98,986	2,393,401
Galeries Lafayette SA	13,991	1,689,252
JC Decaux SA*	119,049	1,437,379
Vinci SA	54,868	3,093,436
		<u>8,613,468</u>
<b>Germany 6.7%</b>		
Deutsche Boerse AG	108,354	4,322,911
Fresenius Medical Care AG	85,180	3,577,218
Stada Arzneimittel AG*	12,281	491,254
		<u>8,391,383</u>
<b>Greece 1.6%</b>		
Greek Organization of Football Prognostics*	64,100	675,678
Hellenic Bottling Co. SA	96,500	1,339,388
		<u>2,015,066</u>
<b>Hong Kong 2.0%</b>		
Legend Group Ltd.	2,913,000	971,187
Li & Fung Ltd.	1,594,000	1,512,547
		<u>2,483,734</u>
<b>Ireland 10.0%</b>		
Anglo Irish Bank Corp., PLC	978,708	6,966,756
Irish Continental Group PLC	64,260	480,362
Irish Life & Permanent PLC	207,901	2,248,234
Jurys Doyle Hotel Group PLC	227,250	1,717,846
Ryanair Holdings PLC*	173,100	1,208,555
		<u>12,621,753</u>
<b>Japan 5.4%</b>		
AEON Credit Service Co., Ltd.	27,000	980,040
JAFCO Co., Ltd.	21,200	915,917
Nidec Corp.	36,000	2,243,557
Olympus Optical Co., Ltd.	163,000	2,654,893
		<u>6,794,407</u>
<b>Netherlands 2.1%</b>		
IHC Caland NV	33,400	1,763,852
Vedior NV	151,615	865,942
		<u>2,629,794</u>
<b>Russia 0.9%</b>		
Mobile Telesystems (ADR)	31,300	1,162,482

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

	Shares	Value (\$)
<b>Spain 0.8%</b>		
Amadeus Global Travel Distribution SA "A"	242,100	998,930
<b>Sweden 1.0%</b>		
Eniro AB	193,900	1,229,550
<b>Switzerland 0.5%</b>		
Converium Holding AG*	13,260	643,084
<b>United Kingdom 9.4%</b>		
Aegis Group PLC	1,175,335	1,481,821
ARM Holdings PLC*	726,578	561,918
Capita Group PLC*	680,187	2,712,397
De La Rue PLC	141,406	664,135
Matalan PLC	477,607	1,615,994
Misys PLC	286,494	812,415
PizzaExpress PLC	73,262	394,253
Taylor Nelson Sofres PLC	565,222	1,384,243
Viridian Group PLC	176,590	1,416,920
Wood Group (John) PLC*	291,992	756,261
		<b>11,800,357</b>
<b>United States 44.9%</b>		
Accredo Health, Inc.*	17,600	620,400
Advance Auto Parts, Inc.*	12,000	586,800
Affiliated Computer Services, Inc. "A"*	31,700	1,669,005
Alexion Pharmaceuticals, Inc.*	10,400	146,848
Alkermes, Inc.*	58,800	368,676
Alliance Gaming Corp.*	37,200	633,516
Arthur J. Gallagher & Co.	49,800	1,463,124
BJ's Wholesale Club, Inc.*	61,200	1,119,960
Brinker International, Inc.*	104,500	3,370,125
Caremark Rx, Inc.*	155,500	2,526,875
Celgene Corp.*	40,600	871,682
Cephalon, Inc.	11,500	559,682
Copart, Inc.*	151,700	1,796,128
Diamond Offshore Drilling, Inc.	41,200	900,220
Diebold, Inc.	39,000	1,607,580
Documentum, Inc.*	72,200	1,130,652
Energy East Corp.	111,000	2,451,990
EOG Resources, Inc.	52,200	2,083,824
Fiserv, Inc.*	101,200	3,435,740
Garmin Ltd.*	33,300	975,690
Invitrogen Corp.*	37,800	1,182,762
JetBlue Airways Corp.*	59,850	1,615,950
Laboratory Corp. of America Holdings*	105,400	2,449,496
Lam Research Corp.*	44,900	484,920
Legg Mason, Inc.	114,800	5,572,392
Mercury Interactive Corp.*	48,300	1,432,095
NPS Pharmaceuticals, Inc.*	31,300	787,821
Pharmaceutical Resources, Inc.*	42,600	1,269,480
Province Healthcare Co.*	78,150	760,400
Radio One, Inc. "D"*	33,800	487,734
Spinnaker Exploration Co.*	28,400	626,220
St. Jude Medical, Inc.	89,300	3,546,996
Symbol Technologies, Inc.	270,693	2,225,096
THQ, Inc.*	92,500	1,225,625
Tiffany & Co.	24,000	573,840
Waters Corp.*	63,400	1,380,852

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

	Shares	Value (\$)
Zions Bancorp.	63,000	2,478,987
		<u>56,419,183</u>
<b>Total Common Stocks (Cost \$136,605,610)</b>		<b>119,747,183</b>

#### Preferred Stocks 1.1%

<b>Brazil</b>		
Aracruz Celulose SA (ADR) (Cost \$1,442,825)	77,000	1,429,122
	Principal Amount	Value (\$)

#### Convertible Bonds 0.5%

<b>United States</b>		
Cephalon, Inc., 5.25%, 5/1/2006 (Cost \$581,000)	581,000	571,589
	Shares	Value (\$)

#### Cash Equivalents 3.1%

Scudder Cash Management QP Trust, 1.4% (b) (Cost \$3,928,745)	3,928,745	3,928,745
<b>Total Investment Portfolio — 100.0% (Cost \$142,558,180) (a)</b>		<b>125,676,639</b>

At December 31, 2002, the Global Discovery Portfolio had the following industry diversification:

Industry	Percent
Financials	21.6%
Consumer Discretionary	18.6%
Health Care	17.4%
Industrials	15.2%
Information Technology	12.5%
Energy	4.9%
Utilities	3.1%
Materials	1.1%
Consumer Staples	1.1%
Communication Services	0.9%
<b>Total Common and Preferred Stocks</b>	<b>96.4%</b>
<b>Convertible Bonds</b>	<b>0.5%</b>
<b>Cash Equivalents</b>	<b>3.1%</b>
<b>Total Investment Portfolio</b>	<b>100.0%</b>

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$143,348,103. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$17,671,464. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$12,906,029 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$30,577,493.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

Purchases and sales of investment securities (excluding short-term investments), for the year ended December 31, 2002, aggregated \$65,110,685 and \$68,865,441 respectively.

At December 31, 2002, the Global Discovery Portfolio had a net tax basis capital loss carryforward of approximately \$50,485,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 (\$24,864,000) and December 31, 2010 (\$25,621,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2002 through December 31, 2002, the Global Discovery Portfolio incurred approximately \$1,491,000 of net realized capital losses. As permitted by tax regulations, the Portfolio intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2003.

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

# Financial Statements

## Global Discovery Portfolio

### Statement of Assets and Liabilities as of December 31, 2002

#### Assets

Investments in securities, at value (cost \$142,558,180)	\$ 125,676,639
Dividends receivable	105,954
Interest receivable	5,076
Receivable for Portfolio shares sold	31,285
Foreign taxes recoverable	68,832
Other assets	2,215
<b>Total assets</b>	<b>125,890,001</b>

#### Liabilities

Payable for investments purchased	91,853
Payable for Portfolio shares redeemed	176,519
Accrued management fee	131,206
Other accrued expenses and payables	72,734
<b>Total liabilities</b>	<b>472,312</b>
<b>Net assets, at value</b>	<b>\$ 125,417,689</b>

#### Net Assets

Net assets consist of:	
Undistributed net investment income	122,354
Net unrealized appreciation (depreciation) on:	
Investments	(16,881,541)
Foreign currency related transactions	11,284
Accumulated net realized gain (loss)	(52,765,128)
Paid-in capital	194,930,720
<b>Net assets, at value</b>	<b>\$ 125,417,689</b>

#### Class A

<b>Net Asset Value</b> , offering and redemption price per share ( $\$120,967,691 \div 17,358,587$ outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 6.97</b>
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#### Class B

<b>Net Asset Value</b> , offering and redemption price per share ( $\$4,449,998 \div 645,610$ outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 6.89</b>
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**Statement of Operations** for the year ended December 31, 2002**Investment Income**

Income:	
Dividends (net of foreign taxes withheld of \$55,005)	\$ 1,512,306
Interest	161,686
Total Income	1,673,992
Expenses:	
Management fee	1,401,011
Custodian fees	78,220
Accounting fees	142,659
Distribution service fees (Class B)	13,767
Auditing	27,833
Legal	5,328
Trustees' fees and expenses	8,578
Reports to shareholders	40,920
Other	8,548
Total expenses	1,726,864
<b>Net investment income (loss)</b>	<b>(52,872)</b>

**Realized and Unrealized Gain (Loss) on Investment Transactions**

Net realized gain (loss) from:	
Investments	(23,192,071)
Foreign currency related transactions	480,404
	(22,711,667)
Net unrealized appreciation (depreciation) during the period on:	
Investments	(9,298,474)
Foreign currency related transactions	(291,019)
	(9,589,493)
<b>Net gain (loss) on investment transactions</b>	<b>(32,301,160)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (32,354,032)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ (52,872)	\$ (21,635)
Net realized gain (loss) on investment transactions	(22,711,667)	(27,919,561)
Net unrealized appreciation (depreciation) on investment transactions during the period	(9,589,493)	(15,489,636)
Net increase (decrease) in net assets resulting from operations	(32,354,032)	(43,430,832)
Distributions to shareholders from:		
Net realized gains:		
Class A	—	(2,677,843)
Class B	—	(162,230)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	66,936,815	161,605,840
Reinvestment of distributions	—	2,677,843
Cost of shares redeemed	(65,055,875)	(129,432,610)
Net increase (decrease) in net assets from Class A share transactions	1,880,940	34,851,073
<b>Class B</b>		
Proceeds from shares sold	616,165	1,138,358
Reinvestment of distributions	—	162,230
Cost of shares redeemed	(1,766,874)	(2,492,123)
Net increase (decrease) in net assets from Class B share transactions	(1,150,709)	(1,191,535)
<b>Increase (decrease) in net assets</b>	<b>(31,623,801)</b>	<b>(12,611,367)</b>
Net assets at beginning of period	157,041,490	169,652,857
Net assets at end of period (including undistributed net investment income of \$122,354 at December 31, 2002)	<b>\$ 125,417,689</b>	<b>\$ 157,041,490</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	17,267,802	13,514,198
Shares sold	8,265,963	17,691,979
Shares issued to shareholders in reinvestment of distributions	—	265,396
Shares redeemed	(8,175,178)	(14,203,771)
Net increase (decrease) in Portfolio shares	90,785	3,753,604
Shares outstanding at end of period	<b>17,358,587</b>	<b>17,267,802</b>
<b>Class B</b>		
Shares outstanding at beginning of period	795,058	921,916
Shares sold	84,878	125,458
Shares issued to shareholders in reinvestment of distributions	—	16,191
Shares redeemed	(234,326)	(268,507)
Net increase (decrease) in Portfolio shares	(149,448)	(126,858)
Shares outstanding at end of period	<b>645,610</b>	<b>795,058</b>

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

# Financial Highlights

## Global Discovery Portfolio

### Class A

Years Ended December 31,	2002	2001	2000	1999	1998
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.70	\$ 11.76	\$ 13.18	\$ 8.04	\$ 7.08
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>a</sup>	(.00)*	(.00)*	(.03)	(.06)	(.03)
Net realized and unrealized gain (loss) on investment transactions	(1.73)	(2.87)	(.62)	5.30	1.18
<b>Total from investment operations</b>	<b>(1.73)</b>	<b>(2.87)</b>	<b>(.65)</b>	<b>5.24</b>	<b>1.15</b>
<i>Less distributions from:</i>					
Net investment income	—	—	(.11)	—	(.12)
Net realized gains on investment transactions	—	(.19)	(.66)	(.10)	(.07)
<b>Total distributions</b>	<b>—</b>	<b>(.19)</b>	<b>(.77)</b>	<b>(.10)</b>	<b>(.19)</b>
<b>Net asset value, end of period</b>	<b>\$ 6.97</b>	<b>\$ 8.70</b>	<b>\$ 11.76</b>	<b>\$ 13.18</b>	<b>\$ 8.04</b>
Total Return (%)	(19.89)	(24.59)	(5.29)	65.88	16.44 <sup>b</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	121	150	159	71	25
Ratio of expenses before expense reductions (%)	1.19	1.23 <sup>c</sup>	1.28	1.63	1.79
Ratio of expenses after expense reductions (%)	1.19	1.22 <sup>c</sup>	1.28	1.63	1.72
Ratio of net investment income (loss) (%)	(.03)	.00 <sup>d</sup>	(.25)	(.66)	(.40)
Portfolio turnover rate (%)	47	56	66	70	54

### Class B

Years Ended December 31,	2002	2001	2000	1999	1998
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.62	\$ 11.69	\$ 13.11	\$ 8.01	\$ 7.07
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>a</sup>	(.02)	(.02)	(.07)	(.08)	(.05)
Net realized and unrealized gain (loss) on investment transactions	(1.71)	(2.86)	(.61)	5.28	1.18
<b>Total from investment operations</b>	<b>(1.73)</b>	<b>(2.88)</b>	<b>(.68)</b>	<b>5.20</b>	<b>1.13</b>
<i>Less distributions from:</i>					
Net investment income	—	—	(.08)	—	(.12)
Net realized gains on investment transactions	—	(.19)	(.66)	(.10)	(.07)
<b>Total distributions</b>	<b>—</b>	<b>(.19)</b>	<b>(.74)</b>	<b>(.10)</b>	<b>(.19)</b>
<b>Net asset value, end of period</b>	<b>\$ 6.89</b>	<b>\$ 8.62</b>	<b>\$ 11.69</b>	<b>\$ 13.11</b>	<b>\$ 8.01</b>
Total Return (%)	(20.07)	(24.96)	(5.42)	65.63	16.18 <sup>b</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	4	7	11	7	4
Ratio of expenses before expense reductions (%)	1.44	1.48 <sup>c</sup>	1.53	1.88	2.04
Ratio of expenses after expense reductions (%)	1.44	1.47 <sup>c</sup>	1.53	1.88	1.98
Ratio of net investment income (loss) (%)	(.28)	(.25)	(.52)	(.91)	(.69)
Portfolio turnover rate (%)	47	56	66	70	54

<sup>a</sup> Based on average shares outstanding during the period.

<sup>b</sup> Total returns would have been lower had certain expenses not been reduced.

<sup>c</sup> The ratios of operating expenses excluding costs incurred in connection with the reorganization before and after expense reductions were 1.22% and 1.22%, and 1.47% and 1.47% for Class A and Class B, respectively.

<sup>d</sup> Less than .005%

\* Less than \$.005 per share

## International Portfolio

Global equities fell in 2002 for the third consecutive year — the first time this had occurred since the Great Depression. Even so, the year began and ended relatively well: a positive fourth-quarter market resulted from better-than-expected third-quarter earnings. Monetary policy remained resolutely supportive during the year, and we expect it to continue to be accommodative into 2003. The Eurozone, in particular, has room to cut interest rates further. As the specter of deflation has begun to haunt equity markets, there are concerns that Germany may become the “next Japan.” Japan itself continues to be an area of concern and uncertainty. It appears that the economy has already begun to falter and that exports peaked in the July–September quarter. We remain circumspect toward our Japanese investments, and much of our exposure is concentrated in companies that are competitive on a global basis.

Against this backdrop, Scudder International Portfolio Class A shares declined 18.37 percent. Among the significant detractors from performance were Nintendo and Sega. Sega had a disappointing earnings announcement, which took the market by surprise and caused the stock to sell off aggressively, dragging down Nintendo in its wake. Nintendo, however, remains committed to its hardware business and continues to have strong brand names within the software games market. Select financial holdings also hurt the portfolio’s relative performance. Positions in energy and Japanese autos, among others, helped to offset some of the damage, albeit not enough for the portfolio to outpace the benchmark.

Alex Tedder  
*Lead Manager*

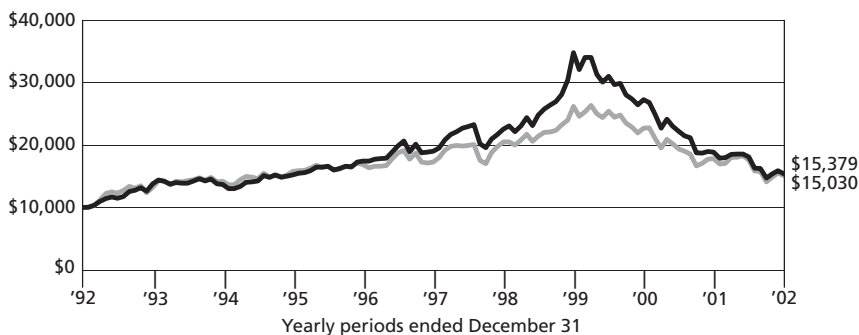
Clare Brody  
*Co-Managers*

Stuart Kirk

Marc J. Slendebroek

### Growth of an Assumed \$10,000 Investment

- International Portfolio — Class A
- MSCI EAFE & Canada Index



The Morgan Stanley Capital International (MSCI) Europe, Australia, the Far East (EAFE) & Canada Index is an unmanaged capitalization-weighted measure of stock markets in Europe, Australia, the Far East and Canada. Index returns assume reinvestment of dividends net of withholding tax and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

International Portfolio		1-Year	3-Year	5-Year	10-Year
Class A	Growth of \$10,000	\$8,163	\$4,419	\$8,091	\$15,379
	Average annual total return	-18.37%	-23.83%	-4.15%	4.40%
MSCI EAFE & Canada Index	Growth of \$10,000	\$8,420	\$5,733	\$8,711	\$15,030
	Average annual total return	-15.80%	-16.92%	-2.72%	4.16%
International Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class B	Growth of \$10,000	\$8,138	\$4,398	\$8,017	\$8,204
	Average annual total return	-18.62%	-23.95%	-4.32%	-3.44%
MSCI EAFE & Canada Index	Growth of \$10,000	\$8,420	\$5,733	\$8,711	\$8,437
	Average annual total return	-15.80%	-16.92%	-2.72%	-3.00%

\* The Portfolio commenced selling Class B shares on May 8, 1997. Index comparisons begin May 31, 1997.

All performance is historical, assumes reinvestment of all dividends and capital gains, and is not indicative of future results. Investment return and principal value will fluctuate, so an investor’s shares, when redeemed, may be worth more or less than when purchased.

Investments in Portfolios involve risk. Some Portfolios have more risk than others. These include Portfolios that allow exposure to or otherwise concentrate investments in certain sectors, geographic regions, security types, market capitalization or foreign securities (e.g., political or economic instability, which can be accentuated in emerging market countries). Please read this Portfolio’s prospectus for specific details regarding its investments and risk profile.



## International Portfolio

	Shares	Value (\$)
<b>Common Stocks 95.6%</b>		
<b>Australia 0.6%</b>		
Telstra Corp., Ltd.	1,101,440	2,723,759
<b>Belgium 0.5%</b>		
Interbrew	84,093	1,986,507
<b>Brazil 0.5%</b>		
Companhia Vale do Rio Doce (ADR)	74,370	2,150,037
<b>Canada 1.3%</b>		
Canadian Natural Resources Ltd.	127,670	3,797,481
Royal Bank of Canada	39,870	1,465,921
		<b>5,263,402</b>
<b>Denmark 0.4%</b>		
Group 4 Falck AS	85,630	1,810,167
<b>Finland 2.6%</b>		
Nokia Oyj (ADR)	264,900	4,105,950
Nokia Oyj	177,740	2,827,129
Stora Enso Oyj "R"	382,160	4,032,358
		<b>10,965,437</b>
<b>France 12.5%</b>		
Autoroutes du Sud de la France*	183,807	4,444,304
Aventis SA	72,679	3,952,633
Axa	113,010	1,517,523
BNP Paribas SA	133,738	5,452,178
Dassault Systemes SA	5,119	110,391
France Telecom SA	57,640	1,009,410
Groupe Danone	56,181	7,561,802
Sanofi-Synthelabo SA	56,138	3,433,212
Schneider Electric SA	152,171	7,203,771
Total Fina Elf SA	108,687	15,530,431
Vinci SA	37,421	2,109,781
		<b>52,325,436</b>
<b>Germany 4.3%</b>		
Bayer AG	181,480	3,810,716
Deutsche Boerse AG	90,676	3,617,627
Deutsche Telekom AG (Registered)	196,527	2,521,397
E.On AG	137,311	5,535,850
Siemens AG	63,010	2,679,244
		<b>18,164,834</b>
<b>Italy 4.2%</b>		
Eni SpA	588,370	9,358,601
Telecom Italia SpA	626,100	4,752,584
UniCredito Italiano SpA	882,240	3,529,064
		<b>17,640,249</b>
<b>Japan 18.3%</b>		
Asahi Glass Co., Ltd.	432,000	2,644,972
Bridgestone Corp.	197,000	2,438,858
Canon, Inc.	165,000	6,211,470
Fuji Photo Film Co., Ltd.	174,000	5,671,046
Honda Motor Co., Ltd.	132,300	4,891,334

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

	Shares	Value (\$)
Kao Corp.	179,000	3,927,025
Mitsubishi Corp.	535,000	3,266,591
Mitsui & Co., Ltd.	459,000	2,141,536
Mitsui Fudosan Co., Ltd.	452,000	2,931,110
Nissan Motor Co., Ltd.	955,000	7,447,617
Nomura Holdings, Inc.	529,000	5,943,119
Sharp Corp.	266,000	2,524,693
Sony Corp.	207,400	8,663,500
Sumitomo Mitsui Financial Group, Inc.*	711	2,221,501
Takeda Chemical Industries Ltd.	117,000	4,887,317
Toyota Motor Corp.	300,300	8,067,686
Yamanouchi Pharmaceutical Co., Ltd.	104,000	3,012,970
		<b>76,892,345</b>
<b>Korea 2.8%</b>		
Kookmin Bank*	94,604	3,350,085
Samsung Electronics Co., Ltd.	31,140	8,244,138
		<b>11,594,223</b>
<b>Mexico 1.3%</b>		
Cemex SA de CV (ADR)	135,185	2,907,829
Grupo Financiero BBVA Bancomer SA de CV "B"*	3,471,240	2,642,686
		<b>5,550,515</b>
<b>Netherlands 5.2%</b>		
ABN AMRO Holding NV	128,500	2,101,931
Aegon NV	229,937	2,959,696
ASML Holding NV*	85,840	717,382
DSM NV	48,650	2,215,747
ING Groep NV	146,370	2,480,295
Koninklijke (Royal) Philips Electronics NV	217,750	3,817,881
Reed Elsevier NV	173,430	2,121,280
TPG NV	130,570	2,117,969
VNU NV	126,850	3,309,517
		<b>21,841,698</b>
<b>Spain 2.9%</b>		
Banco Popular Espanol SA	95,960	3,926,164
Industria de Diseno Textil SA	110,420	2,609,582
Telefonica SA*	609,186	5,455,653
		<b>11,991,399</b>
<b>Sweden 0.3%</b>		
Securitas AB "B"	92,660	1,111,044
<b>Switzerland 11.7%</b>		
Adecco SA	37,320	1,464,165
Nestle SA (Registered)	52,364	11,105,792
Novartis AG (Registered)	310,064	11,323,003
Roche Holding AG	75,410	5,259,322
Swiss Re (Registered)	154,269	10,128,265
Syngenta AG	46,328	2,684,442
UBS AG* (Registered)	144,522	7,029,952
		<b>48,994,941</b>
<b>Taiwan 0.5%</b>		
Hon Hai Precision Industry Co., Ltd.	82	284
Taiwan Semiconductor Manufacturing Co., Ltd.*	1,627,140	2,000,466
		<b>2,000,750</b>

	Shares	Value (\$)
<b>United Kingdom 25.7%</b>		
AstraZeneca PLC	250,172	8,948,318
BAA PLC	530,318	4,306,423
BP PLC	1,957,811	13,469,404
British Sky Broadcasting Group PLC*	336,323	3,462,639
Diageo PLC	270,120	2,937,719
GlaxoSmithKline PLC	545,806	10,482,486
HSBC Holdings PLC	1,056,010	11,680,416
Lloyds TSB Group PLC	291,190	2,092,479
Man Group PLC	81,400	1,163,316
National Grid Transco PLC	558,077	4,104,731
Reed Elsevier PLC	92,880	796,129
Royal Bank of Scotland Group PLC	372,687	8,935,049
Scottish & Southern Energy PLC	377,502	4,135,975
Shell Transport & Trading Co., PLC	1,760,150	11,599,058
Tesco PLC	1,644,151	5,139,172
Vodafone Group PLC	7,890,465	14,397,615
		<b>107,650,929</b>
<b>Total Common Stocks (Cost \$408,068,074)</b>		<b>400,657,672</b>

#### Warrants 0.0%

<b>France</b>		
Cap Gemini SA* (Cost \$78,247)	35,286	370

#### Preferred Stocks 0.9%

<b>Germany</b>		
Henkel KGaA, (Cost \$3,804,847)	58,990	3,734,595

#### Cash Equivalents 3.5%

Scudder Cash Management QP Trust, 1.4% (b) (Cost \$14,842,646)	14,842,646	14,842,646
<b>Total Investment Portfolio — 100.0%</b> (Cost \$426,793,814) (a)		<b>419,235,283</b>

At December 31, 2002, the International Portfolio had the following industry diversification:

Industry	Percent
Financials	20.3%
Consumer Discretionary	13.4%
Energy	12.8%
Health Care	12.2%
Consumer Staples	8.7%
Industrials	8.4%
Communication Services	7.4%
Information Technology	5.8%
Materials	4.2%
Utilities	3.3%
<b>Total Common and Preferred Stocks</b>	<b>96.5%</b>
<b>Cash Equivalents</b>	<b>3.5%</b>
<b>Total Investment Portfolio</b>	<b>100.0%</b>

\* Non-income producing security.

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

- (a) The cost for federal income tax purposes was \$435,634,806. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$16,399,523. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$17,358,379 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$33,757,902.
- (b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

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Purchases and sales of investment securities (excluding short-term investments), for the year ended December 31, 2002, aggregated \$541,383,151 and \$540,432,112 respectively.

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At December 31, 2002, the International Portfolio had a net tax basis capital loss carryforward of approximately \$238,434,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 (\$133,060,000) and December 31, 2010 (\$105,374,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2002 through December 31, 2002, the International Portfolio incurred approximately \$5,017,000 of net realized capital losses. As permitted by tax regulations, the Portfolio intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2003.

# Financial Statements

## International Portfolio

### Statement of Assets and Liabilities as of December 31, 2002

#### Assets

Investments in securities, at value (cost \$426,793,814)	\$ 419,235,283
Foreign currency, at value (cost \$2,605,592)	2,589,586
Receivable for investments sold	299,120
Dividends receivable	366,459
Receivable for Portfolio shares sold	401,754
Foreign taxes recoverable	835,495
<b>Total assets</b>	<b>423,727,697</b>

#### Liabilities

Payable for investments purchased	3,187,550
Payable for Portfolio shares redeemed	121,315
Accrued management fee	315,800
Other accrued expenses and payables	125,063
<b>Total liabilities</b>	<b>3,749,728</b>
<b>Net assets, at value</b>	<b>\$ 419,977,969</b>

#### Net Assets

Net assets consist of:	
Undistributed net investment income	3,115,540
Net unrealized appreciation (depreciation) on:	
Investments	(7,558,531)
Foreign currency related transactions	88,937
Accumulated net realized gain (loss)	(252,291,856)
Paid-in capital	676,623,879
<b>Net assets, at value</b>	<b>\$ 419,977,969</b>

#### Net Asset Value

##### Class A

**Net Asset Value**, offering and redemption price per share ( $\$412,347,547 \div 63,268,457$  outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) **\$ 6.52**

##### Class B

**Net Asset Value**, offering and redemption price per share ( $\$7,630,422 \div 1,173,516$  outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) **\$ 6.50**

**Statement of Operations** for the year ended December 31, 2002**Investment Income**

Income:	
Dividends (net of foreign taxes withheld of \$902,359)	\$ 7,751,358
Interest	935,158
<b>Total Income</b>	<b>8,686,516</b>
Expenses:	
Management fee	4,282,369
Custodian fees	311,526
Accounting fees	353,261
Distribution service fees (Class B)	13,199
Auditing	30,376
Legal	11,161
Trustees' fees and expenses	15,473
Reports to shareholders	46,706
Total expenses	5,064,071
<b>Net investment income (loss)</b>	<b>3,622,445</b>

**Realized and Unrealized Gain (Loss) on Investment Transactions**

Net realized gain (loss) from:	
Investments	(95,721,962)
Foreign currency related transactions	1,259,893
	<b>(94,462,069)</b>
Net unrealized appreciation (depreciation) during the period on:	
Investments	11,797,626
Foreign currency related transactions	(1,072,701)
	<b>10,724,925</b>
<b>Net gain (loss) on investment transactions</b>	<b>(83,737,144)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (80,114,699)</b>

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 3,622,445	\$ 4,018,092
Net realized gain (loss) on investment transactions	(94,462,069)	(154,544,615)
Net unrealized appreciation (depreciation) on investment transactions during the period	10,724,925	(35,945,231)
Net increase (decrease) in net assets resulting from operations	(80,114,699)	(186,471,754)
Distributions to shareholders from:		
Net investment income:		
Class A	(3,979,977)	(2,533,964)
Class B	(25,865)	(1,002)
Net realized gains:		
Class A	—	(118,779,550)
Class B	—	(132,698)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	3,252,979,447	7,467,638,462
Reinvestment of distributions	3,979,977	121,313,514
Cost of shares redeemed	(3,274,235,277)	(7,488,719,564)
Net increase (decrease) in net assets from Class A share transactions	(17,275,853)	100,232,412
<b>Class B</b>		
Proceeds from shares sold	6,033,545	4,045,454
Reinvestment of distributions	25,865	133,700
Cost of shares redeemed	(544,773)	(1,183,287)
Net increase (decrease) in net assets from Class B share transactions	5,514,637	2,995,867
<b>Increase (decrease) in net assets</b>	<b>(95,881,757)</b>	<b>(204,690,689)</b>
Net assets at beginning of period	515,859,726	720,550,415
Net assets at end of period (including undistributed net investment income of \$3,115,540 and \$2,647,536, respectively)	<b>\$ 419,977,969</b>	<b>\$ 515,859,726</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	63,646,512	50,467,229
Shares sold	423,618,009	781,961,786
Shares issued to shareholders in reinvestment of distributions	507,650	11,870,206
Shares redeemed	(424,503,714)	(780,652,709)
Net increase (decrease) in Portfolio shares	(378,055)	13,179,283
Shares outstanding at end of period	<b>63,268,457</b>	<b>63,646,512</b>
<b>Class B</b>		
Shares outstanding at beginning of period	400,769	53,819
Shares sold	845,134	462,331
Shares issued to shareholders in reinvestment of distributions	3,303	13,134
Shares redeemed	(75,690)	(128,515)
Net increase (decrease) in Portfolio shares	772,747	346,950
Shares outstanding at end of period	<b>1,173,516</b>	<b>400,769</b>

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

# Financial Highlights

## International Portfolio

### Class A

Years Ended December 31,	2002	2001	2000	1999	1998
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.05	\$ 14.26	\$ 20.34	\$ 14.56	\$ 14.11
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.05	.06	.08	.12 <sup>b</sup>	.13
Net realized and unrealized gain (loss) on investment transactions	(1.52)	(3.97)	(4.24)	7.17	2.29
<b>Total from investment operations</b>	<b>(1.47)</b>	<b>(3.91)</b>	<b>(4.16)</b>	<b>7.29</b>	<b>2.42</b>
<i>Less distributions from:</i>					
Net investment income	(.06)	(.05)	(.09)	(.02)	(.26)
Net realized gains on investment transactions	—	(2.25)	(1.83)	(1.49)	(1.71)
<b>Total distributions</b>	<b>(.06)</b>	<b>(2.30)</b>	<b>(1.92)</b>	<b>(1.51)</b>	<b>(1.97)</b>
Net asset value, end of period	\$ 6.52	\$ 8.05	\$ 14.26	\$ 20.34	\$ 14.56
Total Return (%)	(18.37)	(30.86)	(21.70)	54.51	18.49
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	412	513	720	874	509
Ratio of expenses before expense reductions (%)	1.03	1.01 <sup>c</sup>	.96	1.03	1.04
Ratio of expenses after expense reductions (%)	1.03	1.00 <sup>c</sup>	.96	1.03	1.04
Ratio of net investment income (loss) (%)	.73	.64	.48	.76	.90
Portfolio turnover rate (%)	123	105	79	86	71

### Class B

Years Ended December 31,	2002	2001	2000	1999	1998
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.03	\$ 14.19	\$ 20.24	\$ 14.51	\$ 14.08
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.04	.05	.04	.08 <sup>b</sup>	.10
Net realized and unrealized gain (loss) on investment transactions	(1.53)	(3.94)	(4.22)	7.14	2.29
<b>Total from investment operations</b>	<b>(1.49)</b>	<b>(3.89)</b>	<b>(4.18)</b>	<b>7.22</b>	<b>2.39</b>
<i>Less distributions from:</i>					
Net investment income	(.04)	(.02)	(.04)	—	(.25)
Net realized gains on investment transactions	—	(2.25)	(1.83)	(1.49)	(1.71)
<b>Total distributions</b>	<b>(.04)</b>	<b>(2.27)</b>	<b>(1.87)</b>	<b>(1.49)</b>	<b>(1.96)</b>
Net asset value, end of period	\$ 6.50	\$ 8.03	\$ 14.19	\$ 20.24	\$ 14.51
Total Return (%)	(18.62)	(30.81)	(21.89)	54.13	18.28
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	8	3	.77	.69	.37
Ratio of expenses before expense reductions (%)	1.28	1.26 <sup>c</sup>	1.21	1.28	1.28
Ratio of expenses after expense reductions (%)	1.28	1.25 <sup>c</sup>	1.21	1.28	1.28
Ratio of net investment income (loss) (%)	.48	.39	.23	.53	.69
Portfolio turnover rate (%)	123	105	79	86	71

<sup>a</sup> Based on average shares outstanding during the period.

<sup>b</sup> Net investment income per share includes non-recurring dividend income amounting to \$.03 per share.

<sup>c</sup> The ratios of operating expenses excluding costs incurred in connection with a fund complex reorganization before and after expense reductions were 1.00% and 1.00%, and 1.25% and 1.25% for Class A and Class B, respectively.



## Health Sciences Portfolio

In 2002, we faced one of the worst stock market environments since the early 1970s. Still, a diversified approach to health care stock selection — particularly a balanced portfolio combination of health care service, medical device, biotechnology and pharmaceutical stocks — helped us preserve more capital than many of the portfolio's peers. Large pharmaceutical companies — an area in which the portfolio had a relatively small exposure — suffered the effects of patent expirations and manufacturing problems.

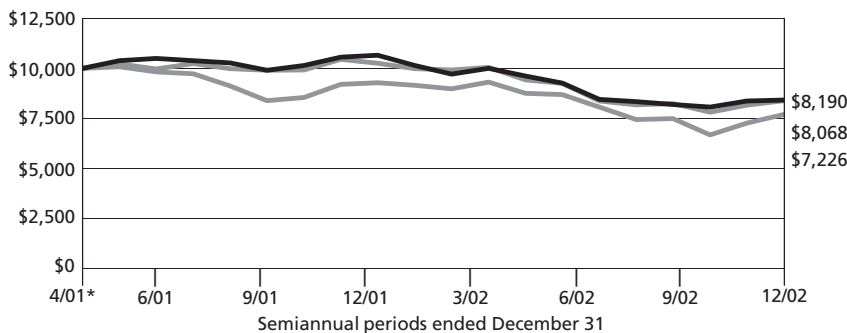
This past year the portfolio's weighting in health care services stocks rose and became one of the largest components of the portfolio. While some companies in this area, such as Tenet Healthcare (not held in the portfolio as of 12/31/02), faced regulatory scrutiny, hospital stocks generally offered attractive returns and, in our view, remain well positioned for future growth. Hospitals generally enjoyed strong earnings growth prospects amid an improvement in admissions, prices and demographic trends. Biotechnology stocks, by contrast, were generally disappointing in 2002. We took advantage of strength in biotechnology stocks during the fourth quarter to reduce the portfolio's weighting in this area.

Despite a year of setbacks, we are optimistic about the health care sector for 2003. The outlook for major pharmaceutical firms appears to be improving given that the pace of new product launches has picked up. The FDA regulatory and Congressional environments have also become more positive now that a surgeon has become majority leader of the US Senate. We believe it is likely that prescription drug coverage legislation will be enacted in 2003, which would help clarify the sector's earnings outlook.

James E. Fenger      Leefin Lai      Thomas Bucher  
*Co-Managers*

### Growth of an Assumed \$10,000 Investment

- Health Sciences Portfolio — Class A\*
- S&P 500 Index
- Goldman Sachs Healthcare Index



The Standard & Poor's (S&P) 500 Index is a 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. The Goldman Sachs Healthcare Index is a market capitalization-weighted index of 114 stocks designed to measure the performance of companies in the health care sector. Index returns assume reinvestment of dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

## Comparative Results

Health Sciences Portfolio		1-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$7,690	\$8,190
	Average annual total return	-23.10%	-11.29%
S&P 500 Index	Growth of \$10,000	\$7,790	\$7,226
	Average annual total return	-22.10%	-17.71%
Goldman Sachs Healthcare Index	Growth of \$10,000	\$7,877	\$8,068
	Average annual total return	-21.23%	-12.06%

Health Sciences Portfolio		Life of Portfolio**
Class B	Growth of \$10,000	\$10,124
	Average annual total return	1.24%
S&P 500 Index	Growth of \$10,000	\$8,970
	Average annual total return	-10.30%
Goldman Sachs Healthcare Index	Growth of \$10,000	\$9,659
	Average annual total return	-3.41%

\* The Fund commenced operations on May 1, 2001. Index comparisons begin April 30, 2001.

\*\* The Portfolio commenced selling Class B shares on July 1, 2002. Index comparisons begin June 30, 2002.

All performance is historical, assumes reinvestment of all dividends and capital gains, and is not indicative of future results. Investment return and principal value will fluctuate, so an investor's shares, when redeemed, may be worth more or less than when purchased. Total returns would have been lower for the Life of Portfolio period of Class A shares if the Portfolio's expenses were not maintained.

Investments in Portfolios involve risk. Some Portfolios have more risk than others. These include Portfolios that allow exposure to or otherwise concentrate investments in certain sectors, geographic regions, security types, market capitalization or foreign securities (e.g., political or economic instability, which can be accentuated in emerging market countries). Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

## Health Sciences Portfolio

	Shares	Value (\$)
<b>Common Stocks 96.7%</b>		
<b>Health Care</b>		
<b>Biotechnology 23.5%</b>		
Adolor Corp.*	48,900	680,199
Amgen, Inc.*	39,150	1,892,511
Amylin Pharmaceuticals, Inc.*	36,100	582,654
Biogen, Inc.*	21,600	865,296
Celgene Corp.*	31,100	667,717
Celltech Group PLC*	77,100	428,571
Cephalon, Inc.*	8,800	428,278
Genentech, Inc.*	16,800	557,088
Gilead Sciences, Inc.*	42,100	1,431,400
IDEC Pharmaceuticals Corp.	46,100	1,529,137
ILEX Oncology, Inc.	68,300	482,198
Inspire Pharmaceuticals, Inc.*	83,000	775,220
InterMune, Inc.*	43,000	1,096,930
MedImmune, Inc.*	36,000	978,120
Millennium Pharmaceuticals, Inc.*	48,100	381,914
Neurocrine Biosciences, Inc.*	16,600	757,956
NPS Pharmaceuticals, Inc.*	46,700	1,175,439
Scios, Inc.*	41,400	1,348,812
Transkaryotic Therapies, Inc.*	28,800	285,120
		<b>16,344,560</b>
<b>Health Care Services 17.2%</b>		
Aetna, Inc.	7,500	308,400
AmerisourceBergen Corp.	41,600	2,259,296
Anthem, Inc.*	18,900	1,188,810
Caremark Rx, Inc.*	127,100	2,065,375
Laboratory Corp. of America Holdings*	41,000	952,840
McKesson Corp.	50,800	1,373,124
Priority Health Corp. "B"*	42,800	992,960
Quest Diagnostics, Inc.	3,800	216,220
UnitedHealth Group, Inc.	14,150	1,181,525
WellChoice, Inc.	1,000	23,950
Wellpoint Health Networks, Inc.*	19,500	1,387,620
		<b>11,950,120</b>
<b>Hospital Management 11.5%</b>		
HCA, Inc.	82,700	3,432,050
LifePoint Hospitals, Inc.*	25,200	754,261
Triad Hospitals, Inc.*	47,100	1,404,993
Universal Health Services, Inc. "B"	53,900	2,430,890
		<b>8,022,194</b>
<b>Life Science Equipment 1.7%</b>		
Charles River Laboratories International, Inc.*	31,300	1,204,424
<b>Medical Supply &amp; Specialty 14.6%</b>		
Abbott Laboratories	54,300	2,172,000
Biomet, Inc.	34,200	980,172
Boston Scientific Corp.*	31,200	1,326,624
Diagnostic Products Corp.	35,100	1,355,562
Johnson & Johnson	14,300	768,053
Medtronic, Inc.	32,900	1,500,240
St. Jude Medical, Inc.	23,500	933,420
Zimmer Holdings, Inc.*	26,900	1,116,888
		<b>10,152,959</b>

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

	Shares	Value (\$)
<b>Pharmaceuticals 28.2%</b>		
Alcon, Inc.	33,800	1,333,410
Allergan, Inc.	22,500	1,296,450
Altana AG	21,500	977,404
Aventis SA	17,600	957,172
Biovail Corp.*	35,200	929,632
Eli Lilly & Co.	18,500	1,174,750
Forest Laboratories, Inc.	21,230	2,085,211
King Pharmaceuticals, Inc.	59,733	1,026,810
KYORIN Pharmaceutical Co., Ltd.	23,000	339,170
Pfizer, Inc.	89,400	2,732,958
Pharmaceutical Resources, Inc.*	37,000	1,102,600
Pharmacia Corp.	34,700	1,450,460
SICOR, Inc.*	49,000	776,650
Teva Pharmaceutical Industries Ltd. (ADR)	25,600	988,416
Wyeth	65,700	2,457,181
		<b>19,628,274</b>
<b>Total Common Stocks</b> (Cost \$73,463,140)		<b>67,302,531</b>

#### Cash Equivalents 3.3%

Scudder Cash Management QP Trust, 1.4% (b) (Cost \$2,277,252)	2,277,252	2,277,252
<b>Total Investment Portfolio — 100.0%</b> (Cost \$75,740,392) (a)		<b>69,579,783</b>

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$76,856,558. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$7,276,775. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$3,257,793 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$10,534,568.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

Purchases and sales of investment securities (excluding short-term investments), for the year ended December 31, 2002, aggregated \$68,724,467 and \$35,361,722, respectively.

At December 31, 2002, the Health Sciences Portfolio had a net tax basis capital loss carryforward of approximately \$7,821,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 (\$305,000) and December 31, 2010 (\$7,516,000), the respective expiration dates, whichever occurs first.

From November 1, 2002 through December 31, 2002, the Health Sciences Portfolio incurred approximately \$932,000 of net realized capital losses. As permitted by tax regulations, the Portfolio intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2003.

# Financial Statements

## Health Sciences Portfolio

### Statement of Assets and Liabilities as of December 31, 2002

#### Assets

Investments in securities, at value (cost \$75,740,392)	\$	69,579,783
Cash		10,000
Dividends receivable		3,296
Receivable for Portfolio shares sold		1,293
Foreign taxes recoverable		2,828
Other assets		1,233
<b>Total assets</b>		<b>69,598,433</b>

#### Liabilities

Payable for Portfolio shares redeemed		196,113
Accrued management fee		58,586
Other accrued expenses and payables		40,274
<b>Total liabilities</b>		<b>294,973</b>
<b>Net assets, at value</b>	<b>\$</b>	<b>69,303,460</b>

#### Net Assets

Net assets consist of:

Net unrealized appreciation (depreciation) on:

Investments		(6,160,609)
Foreign currency related transactions		306
Accumulated net realized gain (loss)		(9,868,653)
Paid-in capital		85,332,416
<b>Net assets, at value</b>	<b>\$</b>	<b>69,303,460</b>

#### Net Asset Value

##### Class A

**Net Asset Value**, offering and redemption price per share ( $\$68,983,062 \div 8,419,124$  outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) **\$ 8.19**

##### Class B

**Net Asset Value**, offering and redemption price per share ( $\$320,398 \div 39,123$  outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) **\$ 8.19**

**Statement of Operations** for the year ended December 31, 2002**Investment Income**

Income:		
Dividends (net of foreign taxes withheld of \$4,886)	\$	307,972
Interest		55,370
<b>Total Income</b>		<b>363,342</b>
Expenses:		
Management fee		520,626
Custodian fees		14,344
Accounting fees		57,322
Distribution service fees (Class B)		54
Auditing		21,090
Legal		1,572
Trustees' fees and expenses		5,519
Reports to shareholders and registrations fees		8,183
Total expenses, before expense reductions		628,710
Expense reductions		(93)
Total expenses, after expense reductions		628,617
<b>Net investment income (loss)</b>		<b>(265,275)</b>

**Realized and Unrealized Gain (Loss) on Investment Transactions**

Net realized gain (loss) from:		
Investments		(9,362,659)
Foreign currency related transactions		(4,897)
		<b>(9,367,556)</b>
Net unrealized appreciation (depreciation) during the period on:		
Investments		(8,655,819)
Foreign currency related transactions		2,925
		<b>(8,652,894)</b>
<b>Net gain (loss) on investment transactions</b>		<b>(18,020,450)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$</b>	<b>(18,285,725)</b>

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Year Ended December 31, 2002	For the Period May 1, 2001 (commencement of operations) to December 31, 2001
Operations:		
Net investment income (loss)	\$ (265,275)	\$ (31,118)
Net realized gain (loss) on investment transactions	(9,367,556)	(508,855)
Net unrealized appreciation (depreciation) on investment transactions during the period	(8,652,894)	2,492,591
Net increase (decrease) in net assets resulting from operations	(18,285,725)	1,952,618
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	42,730,716	54,604,262
Cost of shares redeemed	(11,443,796)	(1,078,628)
Net increase (decrease) in net assets from Class A share transactions	31,286,920	53,525,634
<b>Class B</b>		
Proceeds from shares sold	375,318	—
Cost of shares redeemed	(51,305)	—
Net increase (decrease) in net assets from Class B share transactions	324,013	—
<b>Increase (decrease) in net assets</b>	<b>13,325,208</b>	<b>55,478,252</b>
Net assets at beginning of period	55,978,252	500,000
Net assets at end of period	<b>\$ 69,303,460</b>	<b>\$ 55,978,252</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	5,257,558	50,000
Shares sold	4,518,361	5,315,141
Shares redeemed	(1,356,795)	(107,583)
Net increase (decrease) in Portfolio shares	3,161,566	5,207,558
Shares outstanding at end of period	<b>8,419,124</b>	<b>5,257,558</b>
<b>Class B</b>		
Shares outstanding at beginning of period	—	—
Shares sold	45,098	—
Shares redeemed	(5,975)	—
Net increase (decrease) in Portfolio shares	39,123	—
Shares outstanding at end of period	<b>39,123</b>	—

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

# Financial Highlights

## Health Sciences Portfolio

### Class A

Years Ended December 31,	2002	2001 <sup>a</sup>
<b>Selected Per Share Data</b>		
Net asset value, beginning of period	\$ 10.65	\$ 10.00
<i>Income (loss) from investment operations:</i>		
Net investment income (loss) <sup>c</sup>	(.03)	(.02)
Net realized and unrealized gain (loss) on investment transactions	(2.43)	.67
<b>Total from investment operations</b>	<b>(2.46)</b>	<b>.65</b>
Net asset value, end of period	\$ 8.19	\$ 10.65
Total Return (%)	(23.10)	6.50 <sup>d**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	69	56
Ratio of expenses before expense reductions (%)	.91	1.40*
Ratio of expenses after expense reductions (%)	.91	.95*
Ratio of net investment income (loss) (%)	(.38)	(.25)*
Portfolio turnover rate (%)	53	34*

### Class B

	2002 <sup>b</sup>
<b>Selected Per Share Data</b>	
Net asset value, beginning of period	\$ 8.09
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>c</sup>	(.04)
Net realized and unrealized gain (loss) on investment transactions	.14
<b>Total from investment operations</b>	<b>.10</b>
Net asset value, end of period	\$ 8.19
Total Return (%)	1.24 <sup>**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.3
Ratio of expenses (%)	1.16*
Ratio of net investment income (loss) (%)	(.92)*
Portfolio turnover rate (%)	53

<sup>a</sup> For the period May 1, 2001 (commencement of operations) to December 31, 2001.

<sup>b</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized



# Notes to Financial Statements

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## A. Significant Accounting Policies

Scudder Variable Series I (the “Fund”) is registered under the Investment Company Act of 1940 (the “1940 Act”), as amended, as an open-end, registered management investment company organized as a Massachusetts business trust. The Fund is a series fund consisting of eight diversified portfolios: Money Market Portfolio, Bond Portfolio, Balanced Portfolio, Growth and Income Portfolio, Capital Growth Portfolio, 21st Century Growth Portfolio, Global Discovery Portfolio and International Portfolio, and one non-diversified portfolio: Health Sciences Portfolio (individually or collectively hereinafter referred to as a “Portfolio” or the “Portfolios”). These financial statements report on six Portfolios which consist of Growth and Income Portfolio, Capital Growth Portfolio, 21st Century Growth Portfolio, Global Discovery Portfolio, International Portfolio and Health Sciences Portfolio. The Fund 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) for each of the Portfolios. Class B shares are subject to Rule 12b-1 fees under the 1940 Act, equal to an annual rate of up to 0.25% of the average daily net assets of the Class B shares of the applicable Portfolio. 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 fee). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The Fund’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of the financial statements for its Portfolios.

**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. Equity securities are valued at the most recent sale price reported on the exchange (US or foreign) or over-the-counter market on which the security is traded most extensively. 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.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end investment companies and Scudder Cash Management QP Trust are valued at their net asset value each business day.

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.

**Foreign Currency Translations.** The books and records of the Portfolios are maintained in US dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into US dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into US 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 disposition of forward foreign currency exchange contracts and foreign currencies, and the difference between the amount of net investment income accrued and the US 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 gains and losses on investment securities.

**Repurchase Agreements.** Each Portfolio may enter into repurchase agreements with certain banks and broker/dealers whereby the Portfolio, through its custodian or 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.

**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. A portfolio may enter 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. Sales and purchases of forward currency contracts having the same settlement date and broker are offset and any gain (loss) is realized on the date of offset; otherwise, gain (loss) is realized on settlement date. Realized and unrealized gains

and losses which represent the difference between the value of a forward currency contract to buy and a forward currency contract to sell are included in net realized and unrealized gain (loss) from foreign currency related transactions.

Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. Additionally, when utilizing forward currency contracts to hedge, a portfolio gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

The Global Discovery Portfolio and International Portfolio entered into forward currency contracts during the year ended December 31, 2002.

**When-Issued/Delayed Delivery Securities.** Each Portfolio may purchase securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time a Portfolio enters into a commitment to purchase a security, the transaction is recorded and the value of the security 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. No interest accrues to the Portfolio until payment takes place. At the time the Portfolio enters into this type of transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

Certain risks may arise upon entering when-issued or delayed delivery securities from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

**Federal Income Taxes.** Each Portfolio is treated as a separate taxpayer as provided for in the Internal Revenue Code of 1986, as amended. It is each Portfolio's policy to comply with the requirements of the Internal Revenue Code, 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. Accordingly, the Portfolios paid no federal income taxes and no federal income tax provision was required.

**Distribution of Income and Gains.** All Portfolios will declare and distribute dividends from their net investment income, if any, in April, although additional distributions may be made if necessary. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to each Portfolio if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gains 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 forward currency contracts, passive foreign investment companies, post October loss deferrals, non-taxable distributions 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, each Portfolio may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Portfolio.

At December 31, 2002, the Portfolios' components of distributable earnings (accumulated losses) on a tax-basis are as follows:

Portfolio	Undistributed ordinary income*	Undistributed net long-term capital gains	Capital loss carryforwards	Net unrealized gain (loss) on investments
Growth and Income Portfolio	\$1,465,168	\$ —	\$(34,898,000)	\$(15,799,640)
Capital Growth Portfolio	2,456,756	—	(139,068,000)	(105,143,913)
21st Century Growth Portfolio	—	—	(22,643,000)	(4,193,741)
Global Discovery Portfolio	122,995	—	(50,485,000)	(17,671,464)
International Portfolio	3,157,149	—	(238,434,000)	(16,399,523)
Health Sciences Portfolio	—	—	(7,821,000)	(7,276,775)

In addition, the tax character of distributions paid by the Portfolios are summarized as follows:

Portfolio	Distributions from ordinary income*		Distributions from long-term capital gains	
	Years Ended December 31,		Years Ended December 31,	
	2002	2001	2002	2001
Growth and Income Portfolio	\$1,662,988	\$2,209,728	\$ —	\$4,219,419
Capital Growth Portfolio	2,359,330	3,674,000	—	116,417,367
21st Century Growth Portfolio	—	—	—	—
Global Discovery Portfolio	—	—	—	2,840,073
International Portfolio	4,005,842	2,534,966	—	118,912,248
Health Sciences Portfolio	—	—	—	—

\* For tax purposes short-term capital gains distributions are considered ordinary income distributions.

**Expenses.** Each Portfolio is charged for those expenses which are directly attributable to it, such as management fees and custodian fees, while other expenses (reports to shareholders, legal and audit fees) are allocated among the Portfolios.

**Other.** Investment transactions are accounted for on the 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 Portfolio is informed of such dividends. 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. Ownership of the Portfolios

At the end of the period, the beneficial ownership in the Portfolios was as follows:

**Growth and Income Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 28%, 24% and 23%, respectively. One Participating Insurance Company was owner of record of 90% of the total outstanding Class B shares of the Portfolio.

**Capital Growth Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 56% and 14%, respectively. Two Participating Insurance Companies were owners of record of 48% and 52%, respectively, of the total outstanding Class B shares of the Portfolio.

**21st Century Growth Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 62% and 22%, respectively. One Participating Insurance Company was owner of record of 100% of the total outstanding Class B shares of the Portfolio.

**Global Discovery Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 53%, 27% and 11%, respectively. One Participating Insurance Company was owner of record of 94% of the total outstanding Class B shares of the Portfolio.

**International Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 32%, 16% and 11%, respectively. One Participating Insurance Company was owner of record of 87% of the total outstanding Class B shares of the Portfolio.

**Health Sciences Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 72% and 26%, respectively. One Participating Insurance Company was owner of record of 100% of the total outstanding Class B shares of the Fund.

## C. Related Parties

On April 5, 2002, 100% of Zurich Scudder Investments, Inc. (“ZSI”) was acquired by Deutsche Bank AG with the exception of Threadneedle Investments in the UK. Upon the closing of this transaction, ZSI became part of Deutsche Asset Management and changed its name to Deutsche Investment Management Americas Inc. (“DeIM” or the “Advisor”). Effective April 5, 2002, the investment management agreement with ZSI was terminated and DeIM became the investment advisor for the Fund. The management fee rate paid by the Fund under the new Investment Management Agreement (the “Management Agreement”) is the same as the previous investment management agreement.

Under the Trust's management agreement with the Advisor, the Portfolios pay a monthly investment management fee, based on the average daily net assets of each Portfolio, payable monthly, at the annual rates shown below:

<b>Portfolio</b>	<b>Annual Management Fee Rate</b>
Growth and Income Portfolio	0.475%
21st Century Growth Portfolio	0.875%
Global Discovery Portfolio	0.975%

The Capital Growth Portfolio pays the Advisor a graduated investment management fee, based on the average daily net assets of the Portfolio, payable monthly, at the annual rates shown below:

<b>Average Daily Net Assets of the Portfolio</b>	<b>Annual Management Fee Rate</b>
first \$500 million	0.475%
next \$500 million	0.450%
over \$1 billion	0.425%

For the year ended December 31, 2002, the Capital Growth Portfolio incurred a management fee equivalent to an annual effective rate of 0.47% of the Portfolio's average daily net assets.

The International Portfolio pays the Advisor a graduated investment management fee, based on the average daily net assets of the Portfolio, payable monthly, at the annual rates shown below:

<b>Average Daily Net Assets of the Portfolio</b>	<b>Annual Management Fee Rate</b>
first \$500 million	0.875%
over \$500 million	0.725%

For the year ended December 31, 2002, the International Portfolio incurred a management fee equivalent to an annual effective rate of 0.87% of the Portfolio's average daily net assets. Effective April 5, 2002, Deutsche Asset Management Investment Services Ltd. ("DeAMIS"), an affiliate of the Advisor, serves as subadvisor with respect to the investment and reinvestment of assets in the International Portfolio.

The Health Sciences Portfolio pays the Advisor a graduated investment management fee, based on the average daily net assets of the Portfolio, payable monthly, at the annual rates shown below:

<b>Average Daily Net Assets of the Portfolio</b>	<b>Annual Management Fee Rate</b>
first \$250 million	0.750%
next \$750 million	0.725%
next \$1.5 billion	0.700%
next \$2.5 billion	0.680%
next \$2.5 billion	0.650%
next \$2.5 billion	0.640%
next \$2.5 billion	0.630%
over \$12.5 billion	0.620%

For the year ended December 31, 2002, the Health Sciences Portfolio incurred a management fee equivalent to an annual effective rate of 0.75% of the Portfolio's average daily net assets.

Until May 1, 2003, the Advisor has agreed to maintain the expenses for the 21st Century Growth Portfolio, the Global Discovery Portfolio and the Health Sciences Portfolio, excluding 12b-1 fees, to the extent necessary so that the Portfolios' expenses are maintained at 1.50%, 1.25% and 0.95%, respectively, of average daily net assets.

The Trustees authorized the Fund on behalf of each Portfolio to pay Scudder Fund Accounting Corporation, a subsidiary of the Advisor, for determining the daily net asset value per share and maintaining the portfolio and general accounting records of the Fund. Scudder Investments Service Company, an affiliate of the Advisor, is the transfer and dividend paying agent of the Fund.

Effective September 30, 2002, Scudder Distributors, Inc. (“SDI”), also an affiliate of the Advisor, is the Fund’s Distributor. Prior to this date, the Fund’s distributor was Scudder Investor Services, Inc. In accordance with the Master Distribution Plan, SDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, SDI 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. These fees are detailed in each Portfolio’s Statement of Operations.

The Portfolios pay each Trustee not affiliated with the Advisor retainer fees plus specified amounts for attended board and committee meetings. Allocated Trustees’ fees and expenses for each Portfolio for the period ended December 31, 2002 are detailed in each Portfolio’s Statement of Operations.

**Scudder Cash Management QP Trust.** Pursuant to an Exemptive Order issued by the SEC, the Fund may invest in the Scudder Cash Management QP Trust (the “QP Trust”), formerly Zurich Scudder Cash Management QP Trust, and other affiliated funds managed by the Advisor. The QP Trust seeks to provide as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. The QP Trust does not pay the Advisor a management fee for the affiliated funds’ investments in the QP Trust. Distributions from the QP Trust to the Portfolios are reflected as interest income on the Statement of Operations. The distributions for the year ended December 31, 2002 were as follows:

Portfolio	QP Trust Distributions (\$)
Growth and Income Portfolio	71,774
Capital Growth Portfolio	321,461
21st Century Growth Portfolio	58,182
Global Discovery Portfolio	47,015
International Portfolio	379,161
Health Sciences Portfolio	55,370

#### D. Line of Credit

The Fund and several other affiliated funds (the “Participants”) share in a \$1.3 billion revolving credit facility administered by J.P. Morgan Chase Bank 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, pro rata based upon net assets, among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.5 percent. Each Portfolio may borrow up to a maximum of 33 percent of its net assets under the agreement.

#### E. Expense Off-Set Arrangements

The Growth and Income Portfolio, Capital Growth Portfolio, 21st Century Growth Portfolio and Health Sciences Portfolio have entered into an arrangement with their custodian whereby credits realized as a result of uninvested cash balances were used to reduce a portion of the Portfolios’ expenses. During the year ended December 31, 2002, the custodian fees were reduced as follows:

Portfolio	Custody Credits (\$)
Growth and Income Portfolio	43
Capital Growth Portfolio	33
21st Century Growth Portfolio	112
Health Sciences Portfolio	93

# Report of Independent Accountants

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## **To the Trustees and Shareholders of Scudder Variable Series I:**

In our opinion, the accompanying statements of assets and liabilities, including the investment portfolios, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the six Portfolios (identified in Note A) of Scudder Variable Series I (the “Fund”) at December 31, 2002 and the results of each of their operations, the changes in each of their net assets, and the financial highlights for the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2002 by correspondence with the custodians, provide a reasonable basis for our opinion.

Boston, Massachusetts  
February 10, 2003

PricewaterhouseCoopers LLP

Pursuant to section 854 of the Internal Revenue Code, the percentages of income dividends paid in calendar year 2002 which qualify for the dividends received deduction are as follows: Growth and Income Portfolio 100% and Capital Growth Portfolio 100%.

The International Portfolio paid foreign taxes of \$902,359 and earned \$3,946,550 of foreign source income during the year ended December 31, 2002. Pursuant to section 853 of the Internal Revenue Code, the International Portfolio designates \$.01 per share as foreign taxes paid and \$.06 per share as income earned from foreign sources for the year ended December 31, 2002.

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please call 1-800-SCUDDER.



# Trustees and Officers

The following table presents certain information regarding the Trustees and Officers of the fund as of December 31, 2002. Each individual's age is set forth in parentheses after his or her name. Unless otherwise noted, (i) each individual has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity, and (ii) the address of each individual is c/o Deutsche Asset Management, Two International Place, Boston, Massachusetts 02110-4103. Each Trustee's term of office extends until the next shareholder's meeting called for the purpose of electing Trustees and until the election and qualification of a successor, or until such Trustee sooner dies, resigns or is removed as provided in the governing documents of the fund.

Non-Interested Trustees		
Name, Age, Position(s) Held with the Fund and Length of Time Served <sup>1</sup>	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Funds in Fund Complex Overseen
Henry P. Becton, Jr. (59) Trustee, 1990–present	President, WGBH Educational Foundation. Directorships: American Public Television; New England Aquarium; Becton Dickinson and Company (medical technology company); Mass Corporation for Educational Telecommunications; The A.H. Belo Company (media company); Committee for Economic Development; Concord Academy; Public Broadcasting Service; Boston Museum of Science	48
Dawn-Marie Driscoll (56) Trustee, 1987–present	President, Driscoll Associates (consulting firm); Executive Fellow, Center for Business Ethics, Bentley College; formerly, Partner, Palmer & Dodge (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (1978–1988). Directorships: CRS Technology (technology service company); Advisory Board, Center for Business Ethics, Bentley College; Board of Governors, Investment Company Institute; former Chairman, ICI Directors Services Committee	48
Edgar R. Fiedler (73) Trustee, 1988–present	Senior Fellow and Economic Counsellor, The Conference Board, Inc. (not-for-profit business research organization). Directorships: The Harris Insight Funds (registered investment companies; 22 funds overseen)	48
Keith R. Fox (48) Trustee, 1996–present	Managing Partner, Exeter Capital Partners (private equity funds). Directorships: Facts on File (school and library publisher); Progressive Holding Corporation (kitchen importer and distributor) Cloverleaf Transportation Inc. (trucking); K-Media, Inc. (broadcasting); Natural History, Inc. (magazine publisher); National Association of Small Business Investment Companies (trade association)	48
Louis E. Levy (70) Trustee, 2002–present	Retired. Formerly, Chairman of the Quality Control Inquiry Committee, American Institute of Certified Public Accountants (1992–1998); Partner, KPMG LLP (1958–1990). Directorships: Household International (banking and finance); ISI Family of Funds (registered investment companies; 3 funds overseen); Kimberly-Clark Corporation (personal consumer products)	48
Jean Gleason Stromberg (59) Trustee, 1999–present	Retired. Formerly, Consultant (1997–2001); Director, U.S. General Accounting Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; Service Source, Inc.	48
Jean C. Tempel (59) Trustee, 1994–present	Managing Partner, First Light Capital (venture capital group) (2000–present); formerly, Special Limited Partner, TL Ventures (venture capital fund) (1996–1998); General Partner, TL Ventures (1994–1996); President and Chief Operating Officer, Safeguard Scientifics, Inc. (public technology business incubator company) (1991–1993). Directorships: Sonesta International Hotels, Inc.; Aberdeen Group (technology research); The Reference, Inc. (IT consulting for financial services); United Way of Mass Bay. Trusteeships: Connecticut College, Chair, Finance Committee; Northeastern University, Chair, Funds and Endowment Committee	48
Carl W. Vogt (66) Trustee, 2002–present	Senior Partner, Fulbright & Jaworski, L.L.P. (law firm); formerly, President (interim) of Williams College (1999–2000); President, certain funds in the Deutsche Asset Management Family of Funds (formerly, Flag Investors Family of Funds) (registered investment companies) (1999–2000). Directorships: Yellow Corporation (trucking); American Science & Engineering (x-ray detection equipment); ISI Family of Funds (registered investment companies, 4 funds overseen); National Railroad Passenger Corporation (Amtrak); formerly, Chairman and Member, National Transportation Safety Board	48

Interested Trustees and Officers		
Name, Age, Position(s) Held with the Fund and Length of Time Served <sup>1</sup>	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Funds in Fund Complex Overseen
Richard T. Hale <sup>2,4</sup> (57) Chairman, Trustee and Vice President, 2002–present	Managing Director of Deutsche Bank Securities Inc. (formerly Deutsche Banc Alex. Brown Inc.) and Deutsche Asset Management (1999 to present); Director and President, Investment Company Capital Corp. (registered investment advisor) (1996 to present); Director, Deutsche Global Funds, Ltd. (2000 to present), CABEL Fund (2000 to present), North American Income Fund (2000 to present) (registered investment companies); President, DB Hedge Strategies Fund LLC (June 2002 to present), Montgomery Street Securities, Inc. (2002 to present) (registered investment companies); Vice President, Deutsche Asset Management, Inc. (2000 to present); formerly, Director, ISI Family of Funds (registered investment company; 4 funds overseen) (1992–1999)	198



Name, Age, Position(s) Held with the Fund and Length of Time Served <sup>1</sup>	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Funds in Fund Complex Overseen
William F. Glavin, Jr. <sup>3</sup> (44) President, 2000–present	Managing Director of Deutsche Asset Management; President of Scudder Investor Services Corp. (1999–present); President of Scudder Service Corp. (2000–present); President of Scudder Financial Services, Inc. (1999–present); Vice President of Scudder Distributors, Inc. (2000–present); formerly, Executive Vice President of Dreyfus Service Corp. (1995–1997); Senior Vice President of The Boston Company Advisors (1991–1995). Directorships: Trustee, Crossroads for Kids (serves at-risk children)	n/a
Joseph Axtell (45) Vice President, 2002–present	Vice President of Deutsche Asset Management (2001 to present); prior thereto, senior analyst for international equities, Merrill Lynch Asset Managers	n/a
James E. Fenger (43) Vice President, 2001–present	Managing Director of Deutsche Asset Management	n/a
J. Christopher Gagnier (45)	Managing Director of Deutsche Asset Management	n/a
Daniel O. Hirsch <sup>4</sup> (48) Vice President and Assistant Secretary, 2002–present	Managing Director of Deutsche Asset Management (2002–present) and Director, Deutsche Global Funds Ltd. (2002–present); formerly, Director, Deutsche Asset Management (1999–2002); Principal, BT Alex. Brown Incorporated (now Deutsche Bank Securities Inc.) (1998–1999); Assistant General Counsel, United States Securities and Exchange Commission (1993–1998)	n/a
Audrey M. T. Jones (57) Vice President, 2003–present	Managing Director of Deutsche Asset Management	n/a
Kathleen T. Millard (42) Vice President, 1999–present	Managing Director of Deutsche Asset Management	n/a
John Millette (40) Vice President and Secretary, 1999–present	Vice President of Deutsche Asset Management	n/a
Kenneth Murphy (39) Vice President, 2002–present	Vice President of Deutsche Asset Management (2001–present); formerly, Director, John Hancock Signature Services (1992–2001); Senior Manager, Prudential Mutual Fund Services (1987–1992)	n/a
Darlene M. Rasel (51) Vice President, 2002–present	Managing Director of Deutsche Asset Management	n/a
Julie M. Van Cleave (43) Vice President, 2002–present	Managing Director of Deutsche Asset Management (2002 to present); prior thereto, Managing Director of large cap investments, Mason Street Advisors	n/a
Charles A. Rizzo (45) Treasurer, 2002–present	Director of Deutsche Asset Management (April 2000–present). Formerly, Vice President and Department Head, BT Alex. Brown Incorporated (now Deutsche Bank Securities Inc.) (1998–1999); Senior Manager, Coopers & Lybrand L.L.P. (now PricewaterhouseCoopers LLP) (1993–1998)	n/a
Brenda Lyons (40) Assistant Treasurer, 2000–present	Managing Director of Deutsche Asset Management	n/a
Caroline Pearson (40) Assistant Secretary, 1997–present	Managing Director of Deutsche Asset Management	n/a

<sup>1</sup> Length of time served represents the date that each Trustee was first elected to the common board of trustees which oversees a number of investment companies, including the fund, managed by the Advisor. For the Officers of the fund, length of time served represents the date that each Officer was first elected to serve as an officer of any fund overseen by the aforementioned common board of trustees.

<sup>2</sup> Mr. Hale is considered an “interested person” of the fund because of his affiliation with the fund’s Advisor.

<sup>3</sup> Address: 222 South Riverside Plaza, Chicago, Illinois

<sup>4</sup> Address: One South Street, Baltimore, Maryland

The fund’s Statement of Additional Information (“SAI”) includes additional information about the Trustees. The SAI is available, without charge, upon request. If you would like to request a copy of the SAI, you may do so by calling the following toll-free number: 1-800-SCUDDER.

## About the Fund's Advisor

Scudder Investments is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Investment Management Americas Inc., Deutsche Asset Management Inc., Deutsche Bank Securities Inc., Deutsche Asset Management Investment Services Ltd., Deutsche Bank Trust Company Americas and Scudder Trust Company.

The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time, based on market and other conditions and should not be construed as a recommendation.

Scudder Distributors, Inc.  
222 South Riverside Plaza  
Chicago, IL 60606  
1-800-778-1482

**SCUDDER**  
INVESTMENTS

A Member of

Deutsche Asset Management



This information must be preceded or accompanied by a current prospectus.

Portfolio changes should not be considered recommendations for action by individual investors.

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Printed in the U.S.A.

Annual report to  
shareholders for the year  
ended December 31, 2002

## Scudder Variable Series II

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Scudder Aggressive Growth Portfolio  
Scudder Blue Chip Portfolio  
Scudder Contrarian Value Portfolio  
Scudder Global Blue Chip Portfolio  
Scudder Government Securities Portfolio  
Scudder Growth Portfolio  
Scudder High Income Portfolio  
Scudder International Select Equity Portfolio  
Scudder Investment Grade Bond Portfolio  
Scudder Money Market Portfolio  
Scudder Small Cap Growth Portfolio  
Scudder Strategic Income Portfolio  
Scudder Technology Growth Portfolio  
Scudder Total Return Portfolio  
SVS Davis Venture Value Portfolio  
SVS Dreman Financial Services Portfolio  
SVS Dreman High Return Equity Portfolio  
SVS Dreman Small Cap Value Portfolio  
SVS Eagle Focused Large Cap Growth Portfolio  
SVS Focus Value+Growth Portfolio  
SVS Index 500 Portfolio  
SVS INVESCO Dynamic Growth Portfolio  
SVS Janus Growth and Income Portfolio  
SVS Janus Growth Opportunities Portfolio  
SVS Oak Strategic Equity Portfolio  
SVS Turner Mid Cap Growth Portfolio

# Contents

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## 3 Economic Overview

### **Management Summary, Portfolios of Investments, Financial Statements, Financial Highlights for:**

5	Scudder Aggressive Growth Portfolio
11	Scudder Blue Chip Portfolio
18	Scudder Contrarian Value Portfolio
24	Scudder Global Blue Chip Portfolio
31	Scudder Government Securities Portfolio
36	Scudder Growth Portfolio
42	Scudder High Income Portfolio (formerly Scudder High Yield Portfolio)
52	Scudder International Select Equity Portfolio (formerly Scudder International Research Portfolio)
58	Scudder Investment Grade Bond Portfolio
67	Scudder Money Market Portfolio
72	Scudder Small Cap Growth Portfolio
78	Scudder Strategic Income Portfolio
84	Scudder Technology Growth Portfolio
89	Scudder Total Return Portfolio
100	SVS Davis Venture Value Portfolio (formerly SVS Venture Value Portfolio)
106	SVS Dreman Financial Services Portfolio
111	SVS Dreman High Return Equity Portfolio
117	SVS Dreman Small Cap Value Portfolio (formerly Scudder Small Cap Value Portfolio)
124	SVS Eagle Focused Large Cap Growth Portfolio (formerly SVS Focused Large Cap Growth Portfolio)
129	SVS Focus Value+Growth Portfolio
134	SVS Index 500 Portfolio
144	SVS INVESCO Dynamic Growth Portfolio (formerly SVS Dynamic Growth Portfolio)
151	SVS Janus Growth and Income Portfolio (formerly SVS Growth and Income Portfolio)
157	SVS Janus Growth Opportunities Portfolio (formerly SVS Growth Opportunities Portfolio)
163	SVS Oak Strategic Equity Portfolio (formerly SVS Strategic Equity Portfolio)
168	SVS Turner Mid Cap Growth Portfolio (formerly SVS Mid Cap Growth Portfolio)
174	Notes to Financial Statements
191	Report of Independent Auditors
192	Tax Information
193	Trustees and Officers
196	Shareholder Meeting Results

# Economic Overview

Dear Shareholder:

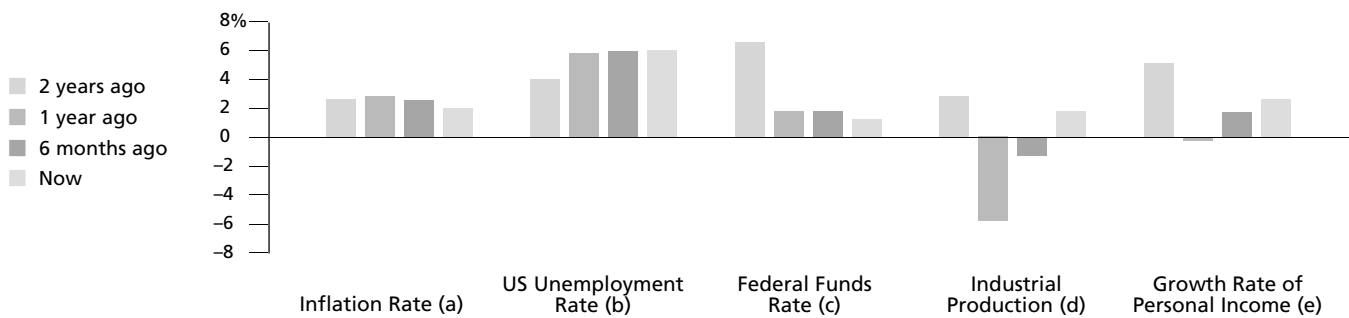
For the past few years, economic activity has been restrained by the unwinding of the late-1990s boom.

During the boom of the late 1990s, companies invested large quantities of money in equipment to produce goods, and they hired more and more employees at higher salaries. Individuals bought goods and services at a robust pace. And stock prices skyrocketed. Then stock prices tumbled. Consumers, feeling poorer, bought fewer goods. And when demand for their goods slowed, companies slashed capital investment (in equipment, new factories, etc.) and cut jobs. This caused the economy to slow down.

Now we see the economy recovering in a series of starts and stops, thanks to two conflicting factors. On one hand, aggressive government policies have kept the economy from stumbling too badly as companies and individuals adjusted to the slowdown. Low interest rates and tax cuts made it easier for consumers to keep spending money, especially on high-price items such as new homes and cars. And when consumers spent money, businesses were able to manufacture more goods — and continue to make money. On the other hand, increased geopolitical uncertainty — fears of terrorism and worries about the effect of a potential war in Iraq — has made already-hesitant consumers and businesses even more reluctant to spend and expand.

The outlook for 2003 hinges on how these factors play out. The recovery is likely to be slow for two reasons. First, individuals still need to increase their savings levels. And second, businesses still have more equipment, factories and inventories than they need. But government policies should be helpful. The Federal Reserve is likely to keep interest rates low, and tax relief packages will likely further stimulate spending. And perhaps most importantly, we believe that geopolitical uncertainty will decrease. That doesn't mean that war will be averted in the Middle East. However, any conflict in the Middle East would create the potential for oil prices to increase, which could, in turn, cause a significant shock to the economy.

**Economic Guideposts Data as of 12/31/02**



(a) The year-over-year percentage change in US consumer prices.

(b) The percentage of adults out of work and looking for a job.

(c) The interest rate banks charge each other for overnight loans.

(d) Year-over-year percentage change.

(e) Growth rate of individual income from all sources.

Sources: Deutsche Asset Management

If these shocks are avoided, the economic recovery should solidify. This will improve the financial markets. We expect the stock market to improve as businesses begin to make money again — but even after the price declines of the past three years, stocks are still not cheap, so returns will likely be lower than they were in the 1980s and 1990s. As for the fixed income market, interest rates and rates of return on all financial assets will be much lower than in the past few decades. That's because the US is likely to remain in an environment of price stability (i.e., low inflation) similar to the late 1950s and early 1960s.

Of course, there are risks to our forecast. The economic rebound could be more powerful than we anticipate — especially if there is a quick and favorable resolution of tensions in the Middle East. But the rebound also could be less powerful than we anticipate. For example, the economy is especially vulnerable to adverse geopolitical shocks, which could cause already-timid consumers and businesses to hunker down further.

A similar forecast exists for international economies. We expect a modest growth in corporate profits across the board. And foreign stocks are relatively cheap. As a result, we expect single-digit positive returns in the overseas stock markets. However, our optimism is tempered by geopolitical uncertainty and its potential impact on oil.

## Deutsche Asset Management Economics Group

*The sources, opinions and forecasts expressed are those of the economic advisors of Deutsche Asset Management as of January 10, 2003, and may not actually come to pass.*

*Scudder Investments is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Investment Management Americas Inc., Deutsche Asset Management Inc., Deutsche Bank Securities Inc., Deutsche Asset Management Investment Services Ltd., Deutsche Bank Trust Company Americas and Scudder Trust Company.*

## Scudder Aggressive Growth Portfolio

The overall stock market declined for the third consecutive year, something that has not occurred in more than 60 years.

In the aftermath of Enron's collapse, a credit crunch affected companies of all sizes. Aggressive accounting practices tarnished entire sectors, including some of the information technology and telecommunications leaders of the late 1990s, and some health care service companies. Ongoing threats of terrorism, geopolitical instability and questions about the reliability of corporate earnings reports hung over the markets. For calendar year 2002, all sectors of the S&P 500 Index produced negative returns. Information technology and telecommunications services led the decline.

In this tempestuous period, the portfolio fell slightly harder than the market. Because the portfolio is, by mandate, aggressive, it was significantly more heavily weighted in information technology (IT) stocks than the benchmark, which ultimately hurt overall performance for the annual period. Some of the losses were, however, modestly offset by select IT positions that rebounded in the fourth quarter. Not surprisingly, the portfolio's underweight stake in historically defensive arenas such as consumer discretionary stocks also detracted from annual performance relative to the benchmark. Finally, the portfolio's position in the telecommunications sector, while small, hurt performance as well.

In December, investors' hopes for an US economic rebound by year end faded with the risk of war in Iraq. The consensus outlook for corporate profits remained murky. A new management team took the helm in November, and remains dedicated to closely monitoring the fundamental operations of every stock. The team expects to focus on companies with superior and sustainable growth prospects relative to the overall equity market. The team continues to concentrate on companies with a low probability of negative earnings surprises, carefully reviewing corporate managements to ascertain how growth is being achieved.

Audrey M.T. Jones

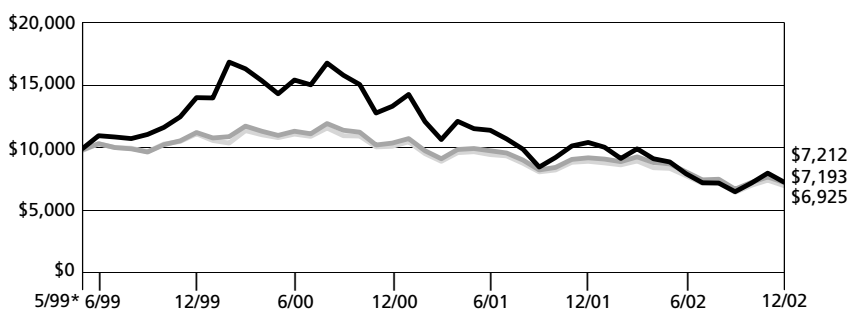
Samuel A. Dedio

Doris R. Klug

Co-Managers, Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder Aggressive Growth Portfolio from 5/1/1999 to 12/31/2002

- Scudder Aggressive Growth Portfolio — Class A
- Russell 3000 Index
- S&P 500 Index



The Russell 3000 Index is an unmanaged index composed of the largest-capitalized US-domiciled companies whose stocks trade in the US. The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and do not reflect fees or expenses; investors cannot directly access an index.

### Average Annual Total Returns<sup>1</sup>

Scudder Aggressive Growth Portfolio	1-Year	3-Year	Life of Portfolio <sup>2</sup>
Class A	-30.66%	-19.81%	-8.53% (Since 5/1/1999)*

\* The Portfolio commenced operations on May 1, 1999. Index returns begin April 30, 1999.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## Scudder Aggressive Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 86.8%</b>					
<b>Consumer Discretionary 11.3%</b>					
<b>Automobiles 1.5%</b>					
Harley-Davidson, Inc.	14,700	679,140			
<b>Hotel Restaurants &amp; Leisure 2.6%</b>					
Gtech Holdings Corp.*	24,300	676,998			
The Cheesecake Factory, Inc.*	13,300	480,795			
		<u>1,157,793</u>			
<b>Media 2.9%</b>					
Dow Jones & Co., Inc.	21,100	912,153			
Univision Communications, Inc. "A"*	17,300	423,850			
		<u>1,336,003</u>			
<b>Specialty Retail 3.0%</b>					
Copart, Inc.*	19,600	232,064			
Pier 1 Imports, Inc.	24,200	458,106			
Regis Corp.	26,100	678,339			
		<u>1,368,509</u>			
<b>Textiles, Apparel &amp; Luxury Goods 1.3%</b>					
Brown Shoe Co., Inc.	25,200	600,516			
<b>Consumer Staples 2.0%</b>					
<b>Beverages 1.0%</b>					
Constellation Brands, Inc. "A"*	19,200	455,232			
<b>Food &amp; Drug Retailing 1.0%</b>					
Performance Food Group Co.*	14,000	475,426			
<b>Energy 4.3%</b>					
<b>Energy Equipment &amp; Services 1.6%</b>					
Precision Drilling Corp.*	22,500	732,150			
<b>Oil &amp; Gas 2.7%</b>					
EOG Resources, Inc.	18,800	750,496			
Pioneer Natural Resources Co.*	19,000	479,750			
		<u>1,230,246</u>			
<b>Financials 10.0%</b>					
<b>Banks 0.9%</b>					
Investors Financial Services Corp.	14,800	405,372			
<b>Diversified Financials 7.3%</b>					
Citigroup, Inc.	12,500	439,875			
Fannie Mae	6,800	437,444			
Freddie Mac	7,600	448,780			
Investment Technology Group, Inc.*	21,000	469,560			
Labranche & Co., Inc.*	16,400	436,896			
Midcap SPDR Trust	13,900	1,093,235			
		<u>3,325,790</u>			
<b>Insurance 1.8%</b>					
Renaissance Retail Group Ltd.	9,700	384,120			
Willis Group Holding Ltd.*	15,200	435,784			
		<u>819,904</u>			
<b>Health Care 21.6%</b>					
<b>Biotechnology 4.4%</b>					
Amgen, Inc.*	25,900	1,252,006			
MedImmune, Inc.*	27,600	749,892			
		<u>2,001,898</u>			
<b>Health Care Equipment &amp; Supplies 2.9%</b>					
Medtronic, Inc.	28,498	1,299,509			
<b>Health Care Providers &amp; Services 3.9%</b>					
DaVita, Inc.*	23,500	579,745			
Laboratory Corp. of America Holdings*	50,500	1,173,620			
		<u>1,753,365</u>			
<b>Pharmaceuticals 10.4%</b>					
Andrx Group*	34,800	510,516			
Biovail Corp.*	35,200	929,632			
Johnson & Johnson	16,500	886,215			
Pfizer, Inc.	40,500	1,238,085			
Teva Pharmaceutical Industries Ltd. (ADR)	13,400	517,374			
Watson Pharmaceuticals, Inc.*	22,300	630,421			
		<u>4,712,243</u>			
<b>Industrials 7.5%</b>					
<b>Air Freight &amp; Logistics 1.0%</b>					
Expeditors International of Washington, Inc.	14,300	466,895			
<b>Airlines 1.8%</b>					
SkyWest, Inc.	28,600	373,802			
Southwest Airlines Co.	30,500	423,950			
		<u>797,752</u>			
<b>Commercial Services &amp; Supplies 3.6%</b>					
Fiserv, Inc.*	27,800	943,810			
Paychex, Inc.	24,600	686,340			
		<u>1,630,150</u>			
<b>Road &amp; Rail 1.1%</b>					
Swift Transportation Co., Inc.*	25,600	512,461			
<b>Information Technology 24.4%</b>					
<b>Communications Equipment 1.1%</b>					
Cisco Systems, Inc.*	38,400	503,040			
<b>Computers &amp; Peripherals 4.3%</b>					
Dell Computer Corp.*	25,000	668,500			
EMC Corp.*	111,000	681,540			
Network Appliance, Inc.*	57,000	570,000			
		<u>1,920,040</u>			
<b>Electronic Equipment &amp; Instruments 4.8%</b>					
Coherent, Inc.*	26,700	532,665			
Jabil Circuit, Inc.*	36,900	661,248			
Nanometrics, Inc.*	6,700	28,073			
Photon Dynamics, Inc.*	9,900	225,720			
Symbol Technologies, Inc.	6,875	56,513			
Vishay Intertechnology, Inc.*	60,500	676,390			
		<u>2,180,609</u>			

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



	Shares	Value (\$)
<b>Semiconductor Equipment &amp; Products 5.0%</b>		
Analog Devices, Inc.*	17,500	417,725
Linear Technology Corp.	16,000	411,520
Microchip Technology, Inc.	30,300	740,835
PDF Solutions, Inc.*	31,700	219,681
QLogic Corp.*	13,700	472,787
		<b>2,262,548</b>
<b>Software 9.2%</b>		
Intuit, Inc.*	10,500	492,660
Mercury Interactive Corp.*	30,300	898,395
Microsoft Corp.*	38,600	1,995,620
Oracle Corp.*	54,600	589,680
SkillSoft PLC (ADR)*	1,300	3,575
THQ, Inc.*	14,800	196,100
		<b>4,176,030</b>

	Shares	Value (\$)
<b>Materials 1.1%</b>		
<b>Containers &amp; Packaging</b>		
Packaging Corp. of America*	26,900	490,656
<b>Telecommunication Services 1.4%</b>		
<b>Diversified Telecommunication Services 0.4%</b>		
Time Warner Telecom, Inc. "A"*	95,000	200,450
<b>Wireless Telecommunication Services 1.0%</b>		
Triton PCS Holdings, Inc. "A"*	109,900	431,906
<b>Other 3.2%</b>		
Standard & Poor's 500 Depository Receipt Trust (SPDRs)	16,200	1,429,326
<b>Total Common Stocks (Cost \$50,522,190)</b>		<b>39,354,959</b>

#### Cash Equivalents 13.2%

Scudder Cash Management QP Trust, 1.4% (b) (Cost \$5,965,564)	5,965,564	5,965,564
<b>Total Investment Portfolio — 100.0%</b> (Cost \$56,487,754) (a)		<b>45,320,523</b>

#### Notes to Scudder Aggressive Growth Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$56,709,336. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$11,388,813. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$1,316,664 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$12,705,477.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$56,487,754)	\$ 45,320,523
Cash	10,000
Receivable for investments sold	172,377
Dividends receivable	14,221
Interest receivable	8,723
Receivable for Portfolio shares sold	45,631
<b>Total assets</b>	<b>45,571,475</b>

### Liabilities

Payable for investments purchased	986,614
Payable for Portfolio shares redeemed	18,434
Accrued management fee	30,511
Other accrued expenses and payables	16,703
<b>Total liabilities</b>	<b>1,052,262</b>
<b>Net assets, at value</b>	<b>\$ 44,519,213</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	(486)
Net unrealized appreciation (depreciation) on investments	(11,167,231)
Accumulated net realized gain (loss)	(34,772,510)
Paid-in capital	90,459,440
<b>Net assets, at value</b>	<b>\$ 44,519,213</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$44,436,650 ÷ 6,292,403 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.06</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$82,563 ÷ 11,689 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.06</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$1,629)	\$ 144,602
Interest	196,551
<b>Total Income</b>	<b>341,153</b>
Expenses:	
Management fee	410,143
Custodian and accounting fees	12,075
Distribution service fees	18
Auditing	9,493
Legal	943
Trustees' fees and expenses	347
Reports to shareholders	5,451
Other	2,658
<b>Total expenses before expense reductions</b>	<b>441,128</b>
Expense reductions	(460)
<b>Total expenses after expense reductions</b>	<b>440,668</b>
<b>Net investment income (loss)</b>	<b>(99,515)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(25,619,840)
Written options	39,183
Foreign currency related transactions	28
	(25,580,629)
Net unrealized appreciation (depreciation) during the period on investments	4,021,333
<b>Net gain (loss) on investment transactions</b>	<b>(21,559,296)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (21,658,811)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ (99,515)	\$ 377,095
Net realized gain (loss) on investment transactions	(25,580,629)	(4,894,259)
Net unrealized appreciation (depreciation) on investment transactions during the period	4,021,333	(11,620,364)
Net increase (decrease) in net assets resulting from operations	(21,658,811)	(16,137,528)
Distributions to shareholders from:		
Net investment income		
Class A	(257,547)	(652,558)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	16,785,284	32,965,142
Reinvestment of distributions	257,547	652,558
Cost of shares redeemed	(21,199,303)	(12,188,961)
Net increase (decrease) in net assets from Class A share transactions	(4,156,472)	21,428,739
<b>Class B*</b>		
Proceeds from shares sold	85,623	—
Cost of shares redeemed	(134)	—
Net increase (decrease) in net assets from Class B share transactions	85,489	—
<b>Increase (decrease) in net assets</b>	<b>(25,987,341)</b>	<b>4,638,653</b>
Net assets at beginning of period	70,506,554	65,867,901
Net assets at end of period (including accumulated net investment loss and undistributed net investment income of \$486 and \$221,556, respectively)	<b>\$ 44,519,213</b>	<b>\$ 70,506,554</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	6,898,699	4,990,960
Shares sold	1,832,303	3,006,544
Shares issued to shareholders in reinvestment of distributions	26,632	62,858
Shares redeemed	(2,465,231)	(1,161,663)
Net increase (decrease) in Portfolio shares	(606,296)	1,907,739
Shares outstanding at end of period	<b>6,292,403</b>	<b>6,898,699</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	11,707	—
Shares redeemed	(18)	—
Net increase (decrease) in Portfolio shares	11,689	—
Shares outstanding at end of period	<b>11,689</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a,b</sup>
<b>Selected Per Share Data</b>				
Net asset value, beginning of period	\$ 10.22	\$ 13.20	\$ 13.99	\$ 10.00
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>c</sup>	(.01)	.06	.18	.06
Net realized and unrealized gain (loss) on investment transactions	(3.11)	(2.92)	(.87)	3.93
<b>Total from investment operations</b>	<b>(3.12)</b>	<b>(2.86)</b>	<b>(.69)</b>	<b>3.99</b>
<i>Less distributions from:</i>				
Net investment income	(.04)	(.12)	—	—
Net realized gains on investment transactions	—	—	(.10)	—
<b>Total distributions</b>	<b>(.04)</b>	<b>(.12)</b>	<b>(.10)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 7.06</b>	<b>\$ 10.22</b>	<b>\$ 13.20</b>	<b>\$ 13.99</b>
Total Return (%)	(30.66)	(21.76)	(4.96)	39.89 <sup>d**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>				
Net assets, end of period (\$ millions)	44	71	66	12
Ratio of expenses before expense reductions (%)	.81	.86	.95	2.66*
Ratio of expenses after expense reductions (%)	.81	.86	.94	.50*
Ratio of net investment income (loss) (%)	(.19)	.58	1.22	.80*
Portfolio turnover rate (%)	71	42	103	90*

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> For the period from May 1, 1999 (commencement of operations) to December 31, 1999.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
Net asset value, beginning of period	\$ 7.43
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	(.02)
Net realized and unrealized gain (loss) on investment transactions	(.35)
<b>Total from investment operations</b>	<b>(.37)</b>
<b>Net asset value, end of period</b>	<b>\$ 7.06</b>
Total Return (%)	(4.98)**
<b>Ratios to Average Net Assets and Supplemental Data</b>	
Net assets, end of period (\$ millions)	.1
Ratio of expenses (%)	1.06*
Ratio of net investment income (loss) (%)	(.47)*
Portfolio turnover rate (%)	71

<sup>a</sup> For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## Scudder Blue Chip Portfolio

Despite a fourth quarter stock market rally, US equity markets declined for the third straight year in 2002. Further threats of terrorist attacks, unrest in the Middle East, risks of a war with Iraq and concerns about corporate accounting tactics kept investors on edge and broad market returns in negative territory.

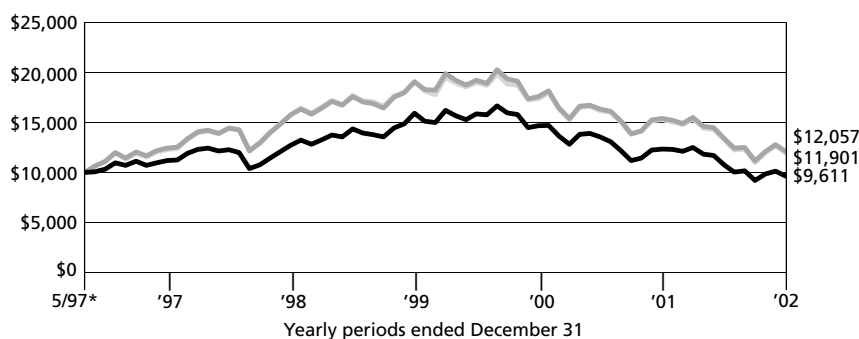
The portfolio's performance was helped by stock selection within the banking, diversified financials, utilities and capital goods areas. On the flip side, issues within the portfolio's health care equipment and semiconductor areas hurt relative performance.

While our outlook for the stock market and the fund is improving, we expect continued volatility in 2003. The fourth quarter rally was a sharp bounce-back of some of the most badly beaten up technology and telecommunications stocks, and not an indication of broad market strength. When investors' attention to company fundamentals begins to guide investment decisions, we expect to see a broad-based recovery. We will continue to seek value by investing in stocks with reasonable valuations, sound growth prospects and strong cash flow.

Joshua Feuerman  
 David Koziol  
 Michael S. Patchen  
 Co-Managers  
 Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder Blue Chip Portfolio from 5/1/1997 to 12/31/2002

- Scudder Blue Chip Portfolio — Class A
- Russell 1000 Index
- S&P 500 Index



The Russell 1000 Index is an unmanaged capitalization-weighted price-only index composed of the largest-capitalized United States companies whose common stocks are traded in the US. This larger capitalization, market-oriented index is highly correlated with the S&P 500 Index. The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the Russell 1000 Index, which better reflects the Portfolio's investment style, will be shown instead of the S&P 500 Index.

### Average Annual Total Returns<sup>1</sup>

Scudder Blue Chip Portfolio	1-Year	3-Year	5-Year	Life of Portfolio
Class A	-22.11%	-15.45%	-2.94%	-.70% (Since 5/1/1997)*

\* The Portfolio commenced operations on May 1, 1997. Index returns begin April 30, 1997.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## Scudder Blue Chip Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 98.5%</b>					
<b>Consumer Discretionary 16.5%</b>					
<b>Auto Components 1.0%</b>					
American Axle & Manufacturing Holdings, Inc.*	71,700	1,679,214			
<b>Automobiles 0.8%</b>					
Harley-Davidson, Inc.	29,200	1,349,040			
<b>Hotel Restaurants &amp; Leisure 1.1%</b>					
Gtech Holdings Corp.*	67,900	1,891,694			
<b>Household Durables 0.2%</b>					
Fortune Brands, Inc.	6,500	302,315			
<b>Internet &amp; Catalog Retailing 0.1%</b>					
eBay, Inc.*	2,500	169,550			
<b>Leisure Equipment &amp; Products 1.4%</b>					
Eastman Kodak Co.	65,700	2,302,128			
Polaris Industries, Inc.	3,500	205,100			
		<b>2,507,228</b>			
<b>Media 3.9%</b>					
Clear Channel Communications, Inc.*	33,300	1,241,757			
Comcast Corp. "A"*	20,538	484,091			
McGraw-Hill, Inc.	43,500	2,629,140			
Tribune Co.	29,800	1,354,708			
Viacom, Inc. "B"*	27,751	1,131,131			
		<b>6,840,827</b>			
<b>Multiline Retail 1.6%</b>					
Wal-Mart Stores, Inc.	54,100	2,732,591			
<b>Specialty Retail 4.9%</b>					
American Eagle Outfitters, Inc.*	11,000	151,580			
AutoZone, Inc.*	10,800	763,020			
Chico's FAS, Inc.*	43,600	824,476			
Home Depot, Inc.	20,700	495,972			
Office Depot, Inc.*	47,800	705,528			
RadioShack Corp.	49,700	931,378			
Rent-A-Center, Inc.*	25,700	1,283,715			
Ross Stores, Inc.	26,800	1,136,052			
Talbots, Inc.	25,300	696,509			
Williams-Sonoma, Inc.*	52,200	1,417,230			
		<b>8,405,460</b>			
<b>Textiles, Apparel &amp; Luxury Goods 1.5%</b>					
Jones Apparel Group, Inc.*	57,700	2,044,888			
VF Corp.	15,900	573,195			
		<b>2,618,083</b>			
<b>Consumer Staples 7.1%</b>					
<b>Beverages 3.5%</b>					
Anheuser-Busch Companies, Inc.	38,700	1,873,080			
Coca-Cola Enterprises, Inc.	59,100	1,283,652			
PepsiCo, Inc.	69,000	2,913,180			
		<b>6,069,912</b>			
<b>Food &amp; Drug Retailing 0.9%</b>					
Sysco Corp.	40,400	1,203,516			
Whole Foods Market, Inc.*	5,600	295,288			
		<b>1,498,804</b>			
<b>Food Products 0.9%</b>					
ConAgra Foods, Inc.	44,000	1,100,440			
Sara Lee Corp.	19,500	438,945			
		<b>1,539,385</b>			
<b>Household Products 1.8%</b>					
Clorox Co.	15,200	627,000			
Colgate-Palmolive Co.	31,800	1,667,274			
Procter & Gamble Co.	10,600	910,964			
		<b>3,205,238</b>			
<b>Energy 6.0%</b>					
<b>Oil &amp; Gas</b>					
Anadarko Petroleum Corp.	47,200	2,260,880			
ChevronTexaco Corp.	11,000	731,280			
Devon Energy Corp.	44,100	2,024,190			
Exxon Mobil Corp.	119,240	4,166,246			
Noble Energy, Inc.	18,300	687,165			
XTO Energy, Inc.	16,800	414,960			
		<b>10,284,721</b>			
<b>Financials 18.7%</b>					
<b>Banks 8.7%</b>					
Bank of America Corp.	15,300	1,064,421			
Bank One Corp.	56,200	2,054,110			
GreenPoint Financial Corp.	21,700	980,406			
J.P. Morgan Chase & Co.	118,600	2,846,400			
US Bancorp.	36,000	763,920			
Wachovia Corp.	51,400	1,873,016			
Washington Mutual, Inc.	82,500	2,848,725			
Wells Fargo & Co.	54,400	2,549,728			
		<b>14,980,726</b>			
<b>Diversified Financials 6.3%</b>					
American Express Co.	50,300	1,778,105			
Charles Schwab Corp.	37,200	403,620			
Citigroup, Inc.	76,000	2,674,440			
Countrywide Financial Corp.	20,200	1,043,330			
Fannie Mae	20,900	1,344,497			
Freddie Mac	12,400	732,220			
MBNA Corp.	65,800	1,251,516			
Morgan Stanley	42,000	1,676,640			
		<b>10,904,368</b>			
<b>Insurance 3.6%</b>					
AFLAC, Inc.	51,000	1,536,120			
American International Group, Inc.	28,712	1,660,989			
Fidelity National Financial, Inc.	12,900	423,507			
Principal Financial Group, Inc.	22,400	674,912			
Progressive Corp.	11,300	560,819			
W.R. Berkley Corp.	34,200	1,354,662			
		<b>6,211,009</b>			

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

	Shares	Value (\$)		Shares	Value (\$)
<b>Real Estate 0.1%</b>			<b>Road &amp; Rail 0.4%</b>		
Equity Office Properties Trust (REIT)	5,900	147,382	Swift Transportation Co., Inc.*	31,400	628,565
<b>Health Care 14.7%</b>			<b>Information Technology 15.1%</b>		
<b>Biotechnology 1.7%</b>			<b>Communications Equipment 0.7%</b>		
Amgen, Inc.*	59,300	2,866,562	Cisco Systems, Inc.*	97,500	1,277,250
<b>Health Care Providers &amp; Services 2.1%</b>			<b>Computers &amp; Peripherals 5.0%</b>		
HCA, Inc.	23,000	954,500	Dell Computer Corp.*	40,000	1,069,600
Mid Atlantic Medical Services, Inc.*	31,600	1,023,840	Hewlett-Packard Co.	137,800	2,392,208
UnitedHealth Group, Inc.	20,500	1,711,750	International Business Machines Corp.	51,600	3,999,000
		<b>3,690,090</b>	Storage Technology Corp.*	58,100	1,244,502
					<b>8,705,310</b>
<b>Pharmaceuticals 10.9%</b>			<b>Electronic Equipment &amp; Instruments 1.4%</b>		
Abbott Laboratories	86,600	3,464,000	Arrow Electronics, Inc.*	50,200	642,058
Forest Laboratories, Inc.*	17,800	1,748,316	Tech Data Corp.*	64,500	1,738,920
Johnson & Johnson	72,782	3,909,121			<b>2,380,978</b>
Merck & Co., Inc.	44,200	2,502,162	<b>Internet Software &amp; Services 0.1%</b>		
Pfizer, Inc.	199,650	6,103,301	Yahoo!, Inc.*	8,000	130,800
Watson Pharmaceuticals, Inc.*	38,200	1,079,914			
		<b>18,806,814</b>	<b>Semiconductor Equipment &amp; Products 3.0%</b>		
<b>Industrials 11.9%</b>			Integrated Circuit Systems*	11,700	213,525
<b>Aerospace &amp; Defense 2.6%</b>			Intel Corp.	206,800	3,219,876
Goodrich Corp.	86,000	1,575,520	QLogic Corp.*	12,600	434,826
Honeywell International, Inc.	52,200	1,252,800	Texas Instruments, Inc.	92,800	1,392,928
Lockheed Martin Corp.	29,100	1,680,525			<b>5,261,155</b>
		<b>4,508,845</b>	<b>Software 4.9%</b>		
<b>Air Freight &amp; Logistics 1.9%</b>			Activision, Inc.*	44,700	652,173
CNF Transportation, Inc.	3,400	113,016	BearingPoint, Inc.*	51,700	356,730
FedEx Corp.	40,100	2,174,222	BMC Software, Inc.*	42,700	730,597
Ryder System, Inc.	15,200	341,088	Microsoft Corp.*	81,700	4,223,890
United Parcel Service, Inc. "B"	10,900	687,572	Oracle Corp.*	225,600	2,436,480
		<b>3,315,898</b>			<b>8,399,870</b>
<b>Airlines 0.3%</b>			<b>Materials 1.7%</b>		
SkyWest, Inc.	43,400	567,238	<b>Containers &amp; Packaging 1.4%</b>		
<b>Commercial Services &amp; Supplies 1.5%</b>			Ball Corp.	41,800	2,139,742
CSG Systems International, Inc.*	31,500	429,975	Owens-Illinois, Inc.	25,200	367,416
Deluxe Corp.	16,900	711,490			<b>2,507,158</b>
First Data Corp.	16,900	598,429	<b>Metals &amp; Mining 0.3%</b>		
Global Payments, Inc.	5,300	169,653	United States Steel Corp.	35,500	465,760
University of Phoenix Online	5,800	207,872			
Viad Corp.	19,300	431,355	<b>Telecommunication Services 4.9%</b>		
		<b>2,548,774</b>	<b>Diversified Telecommunication Services 4.6%</b>		
<b>Construction &amp; Engineering 0.2%</b>			ALLTEL Corp.	7,700	392,700
Shaw Group, Inc.*	18,100	297,745	AT&T Corp.	31,060	810,977
<b>Electrical Equipment 1.3%</b>			BellSouth Corp.	43,600	1,127,932
American Power Conversion Corp.*	34,400	521,160	Sprint Corp.	111,900	1,620,312
Energizer Holdings, Inc.*	40,100	1,118,790	Verizon Communications, Inc.	103,600	4,014,500
Hubbell, Inc. "B"	11,000	386,540			<b>7,966,421</b>
Molex, Inc.	14,200	327,168	<b>Wireless Telecommunication Services 0.3%</b>		
		<b>2,353,658</b>	Nextel Communications, Inc. "A"*	38,600	445,830
<b>Industrial Conglomerates 3.7%</b>					
3M Co.	29,100	3,588,030			
General Electric Co.	115,400	2,809,990			
		<b>6,398,020</b>			

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

	Shares	Value (\$)
<b>Utilities 1.9%</b>		
<b>Electric Utilities</b>		
Edison International*	16,000	189,600
Exelon Corp.	42,600	2,248,002
Southern Co.	29,200	828,988
		<b>3,266,590</b>
<b>Total Common Stocks (Cost \$175,184,569)</b>		<b>170,126,878</b>

	Principal Amount (\$)	Value (\$)
<b>US Government &amp; Agencies 0.2%</b>		
US Treasury Bill, 1.63%**, 1/23/2003 (c) (Cost \$374,626)	375,000	374,750
	Shares	Value (\$)
<b>Cash Equivalents 1.3%</b>		
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$2,159,098)	2,159,098	2,159,098
<b>Total Investment Portfolio — 100.0%</b> (Cost \$177,718,293) (a)		<b>172,660,726</b>

### Notes to Scudder Blue Chip Portfolio of Investments

\* Non-income producing security.

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

- (a) The cost for federal income tax purposes was \$178,949,122. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$6,288,396. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$7,224,016 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$13,512,412.
- (b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) At December 31, 2002, these securities, in part or in whole, have been segregated to cover initial margin requirements for open futures contracts. At December 31, 2002, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value (\$)	Value (\$)
S&P 500 Index Future	3/20/2003	20	4,423,420	4,394,500
<b>Total unrealized depreciation on open futures contracts purchased</b>				<b>(28,920)</b>

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



# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$177,718,293)	\$ 172,660,726
Receivable for investments sold	25,074,318
Dividends receivable	186,085
Interest receivable	3,592
Receivable for Portfolio shares sold	15,099
Receivable for daily variation margin on open futures contracts	7,000
Other assets	2,948
<b>Total assets</b>	<b>197,949,768</b>

### Liabilities

Payable for investments purchased	22,961,143
Payable for Portfolio shares redeemed	697,172
Accrued management fee	101,243
Other accrued expenses and payables	53,337
<b>Total liabilities</b>	<b>23,812,895</b>
<b>Net assets, at value</b>	<b>\$ 174,136,873</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	1,271,447
Net unrealized appreciation (depreciation) on:	
Investments	(5,057,567)
Futures	(28,920)
Accumulated net realized gain (loss)	(72,851,896)
Paid-in capital	250,803,809
<b>Net assets, at value</b>	<b>\$ 174,136,873</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$173,753,746 ÷ 18,535,421 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.37</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$383,127 ÷ 40,975 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.35</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$2,151)	\$ 2,722,131
Interest	109,130
<b>Total Income</b>	<b>2,831,261</b>
Expenses:	
Management fee	1,373,856
Custodian fees	14,155
Distribution service fees	65
Auditing	34,373
Legal	2,470
Trustees' fees and expenses	1,591
Reports to shareholders	25,580
Other	10,088
<b>Total expenses, before expense reductions</b>	<b>1,462,178</b>
Expense reductions	(38)
<b>Total expenses, after expense reductions</b>	<b>1,462,140</b>
<b>Net investment income (loss)</b>	<b>1,369,121</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(31,456,625)
Futures	(281,333)
	(31,737,958)
Net unrealized appreciation (depreciation) during the period on:	
Investments	(23,701,623)
Futures	(28,920)
	(23,730,543)
<b>Net gain (loss) on investment transactions</b>	<b>(55,468,501)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (54,099,380)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 1,369,121	\$ 940,922
Net realized gain (loss) on investment transactions	(31,737,958)	(34,639,379)
Net unrealized appreciation (depreciation) on investment transactions during the period	(23,730,543)	(4,738,753)
Net increase (decrease) in net assets resulting from operations	(54,099,380)	(38,437,210)
Distributions to shareholders from:		
Net investment income		
Class A	(811,699)	(975,786)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	30,297,497	69,494,725
Reinvestment of distributions	811,699	975,786
Cost of shares redeemed	(42,122,019)	(19,446,054)
Net increase (decrease) in net assets from Class A share transactions	(11,012,823)	51,024,457
<b>Class B*</b>		
Proceeds from shares sold	390,999	—
Cost of shares redeemed	(13)	—
Net increase (decrease) in net assets from Class B share transactions	390,986	—
<b>Increase (decrease) in net assets</b>	<b>(65,532,916)</b>	<b>11,611,461</b>
Net assets at beginning of period	239,669,789	228,058,328
Net assets at end of period (including undistributed net investment income of \$1,271,447 and \$717,086, respectively)	<b>\$ 174,136,873</b>	<b>\$ 239,669,789</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	19,851,259	15,830,661
Shares sold	2,729,968	5,517,335
Shares issued to shareholders in reinvestment of distributions	66,642	78,578
Shares redeemed	(4,112,448)	(1,575,315)
Net increase (decrease) in Portfolio shares	(1,315,838)	4,020,598
Shares outstanding at end of period	<b>18,535,421</b>	<b>19,851,259</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	40,976	—
Shares issued to shareholders in reinvestment of distributions	—	—
Shares redeemed	(1)	—
Net increase (decrease) in Portfolio shares	40,975	—
Shares outstanding at end of period	<b>40,975</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a</sup>	1998 <sup>a</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 12.07</b>	<b>\$ 14.41</b>	<b>\$ 15.69</b>	<b>\$ 12.60</b>	<b>\$ 11.15</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.07 <sup>b</sup>	.05 <sup>b</sup>	.07 <sup>b</sup>	.09 <sup>b</sup>	.10
Net realized and unrealized gain (loss) on investment transactions	(2.73)	(2.33)	(1.29)	3.08	1.45
<b>Total from investment operations</b>	<b>(2.66)</b>	<b>(2.28)</b>	<b>(1.22)</b>	<b>3.17</b>	<b>1.55</b>
<i>Less distributions from:</i>					
Net investment income	(.04)	(.06)	(.06)	(.08)	(.10)
<b>Total distributions</b>	<b>(.04)</b>	<b>(.06)</b>	<b>(.06)</b>	<b>(.08)</b>	<b>(.10)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.37</b>	<b>\$ 12.07</b>	<b>\$ 14.41</b>	<b>\$ 15.69</b>	<b>\$ 12.60</b>
Total Return (%)	(22.11)	(15.81)	(7.84)	25.24	13.84

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	174	240	228	185	78
Ratio of expenses before expense reductions (%)	.69	.69	.71	.71	.76
Ratio of expenses after expense reductions (%)	.69	.69	.71	.70	.76
Ratio of net investment income (loss) (%)	.65	.42	.44	.67	1.18
Portfolio turnover rate (%)	195	118	86	64	102

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> Based on average shares outstanding during the period.

## Class B

2002<sup>a</sup>

### Selected Per Share Data

<b>Net asset value, beginning of period</b>	<b>\$ 10.28</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.03
Net realized and unrealized gain (loss) on investment transactions	(.96)
<b>Total from investment operations</b>	<b>(.93)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.35</b>
Total Return (%)	(9.05)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.4
Ratio of expenses (%)	.94*
Ratio of net investment income (loss) (%)	.61*
Portfolio turnover rate (%)	195

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## Scudder Contrarian Value Portfolio

Although the portfolio lost ground, the Scudder Contrarian Value Portfolio held up better than the broad market in 2002.

Industrial stocks were the most important contributor to relative performance. Early in the period, we built positions in stocks that had been battered due to fears of a weakening economy. As the economy improved, these stocks rallied. Strategic moves within information technology stocks proved helpful as well. Our positioning in financial stocks, which emphasized investments in smaller regional banks over larger money-center banks, also added value.

Health care detracted minimally from relative performance due to some of the portfolio's struggling pharmaceutical stocks. However, we remain committed to this area and believe that over time the performance of these stocks will improve.

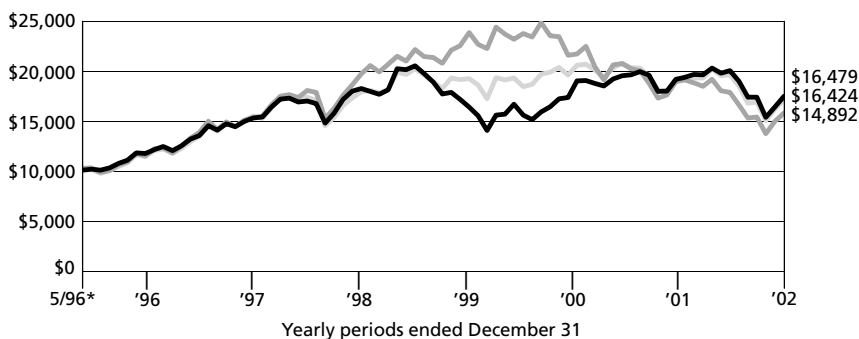
The portfolio comprises solid companies with projected earnings growth that is faster than the market, valuations that are lower than the market and current dividend income that is materially higher. The market decline has broadened the list of quality stocks we can view within the context of our philosophy. We will continue to be diligent and attempt to improve quality further, as well as pursue enhanced earnings growth and dividend yield.

Thomas F. Sassi and Frederick L. Gaskin

Co-Managers, Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder Contrarian Value Portfolio from 5/1/1996 to 12/31/2002

- Scudder Contrarian Value Portfolio — Class A
- Russell 1000 Value Index
- S&P 500 Index



Russell 1000 Value Index is an unmanaged index, which consists of those stocks in the Russell 1000 Index with lower price-to-book ratios and lower forecasted-growth values. The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the Russell 1000 Value Index, which better reflects the Portfolio's investment style, will be shown instead of the S&P 500 Index.

### Average Annual Total Returns<sup>1</sup>

Scudder Contrarian Value Portfolio	1-Year	3-Year	5-Year	Life of Portfolio
Class A	-14.98%	.19%	1.49%	7.78% (Since 5/1/1996)*

\* The Portfolio commenced operations on May 1, 1996. Index returns begin April 30, 1996.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## Scudder Contrarian Value Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 96.2%</b>			<b>Other Financial Companies 4.7%</b>		
<b>Consumer Discretionary 6.8%</b>			Fannie Mae 76,600 4,927,678		
<b>Auto Components 1.4%</b>			Freddie Mac 86,600 5,113,730		
Dana Corp.	251,400	2,956,464	<b>10,041,408</b>		
<b>Multiline Retail 4.0%</b>			<b>Health Care 11.5%</b>		
Federated Department Stores, Inc.*	32,000	920,320	<b>Health Care Equipment &amp; Supplies 3.5%</b>		
Sears, Roebuck & Co.	126,500	3,029,675	Baxter International, Inc. 129,000 3,612,000		
Target Corp.	67,000	2,010,000	Becton, Dickinson & Co. 126,500 3,882,285		
The May Department Stores Co.	110,000	2,527,800	<b>7,494,285</b>		
		<b>8,487,795</b>	<b>Pharmaceuticals 8.0%</b>		
<b>Textiles, Apparel &amp; Luxury Goods 1.4%</b>			Abbott Laboratories 75,000 3,000,000		
The Limited, Inc.	210,000	2,925,300	Bristol-Myers Squibb Co. 246,900 5,715,735		
<b>Consumer Staples 2.7%</b>			Merck & Co., Inc. 91,200 5,162,832		
<b>Food &amp; Drug Retailing 0.5%</b>			Wyeth 86,700 3,242,580		
Albertson's, Inc.	52,000	1,157,520	<b>17,121,147</b>		
<b>Food Products 2.2%</b>			<b>Industrials 13.7%</b>		
McDonald's Corp.	140,000	2,251,200	<b>Aerospace &amp; Defense 4.9%</b>		
Sara Lee Corp.	106,200	2,390,562	Honeywell International, Inc. 163,100 3,914,400		
		<b>4,641,762</b>	Raytheon Co. 87,700 2,696,775		
<b>Energy 11.9%</b>			United Technologies Corp. 63,000 3,902,220		
<b>Oil &amp; Gas</b>			<b>10,513,395</b>		
BP PLC (ADR)	140,644	5,717,179	<b>Commercial Services &amp; Supplies 2.7%</b>		
ChevronTexaco Corp.	69,600	4,627,008	Automatic Data Processing, Inc. 72,000 2,826,000		
ConocoPhillips	116,400	5,632,596	Pitney Bowes, Inc. 87,400 2,854,484		
Exxon Mobil Corp.	229,200	8,008,248	<b>5,680,484</b>		
Royal Dutch Petroleum Co. (New York shares)	32,000	1,408,640	<b>Electrical Equipment 2.1%</b>		
		<b>25,393,671</b>	Emerson Electric Co. 90,000 4,576,500		
<b>Financials 30.1%</b>			<b>Industrial Conglomerates 2.7%</b>		
<b>Banks 21.5%</b>			General Electric Co. 89,700 2,184,195		
AmSouth Bancorp.	190,000	3,648,000	Textron, Inc. 85,600 3,679,944		
Bank of America Corp.	79,906	5,559,060	<b>5,864,139</b>		
FleetBoston Financial Corp.	206,400	5,015,520	<b>Road &amp; Rail 1.3%</b>		
J.P. Morgan Chase & Co.	264,700	6,352,800	Burlington Northern Santa Fe Corp. 110,000 2,861,100		
KeyCorp.	74,000	1,860,360	<b>Information Technology 11.3%</b>		
National City Corp.	134,900	3,685,468	<b>Computers &amp; Peripherals 4.0%</b>		
PNC Financial Services Group	132,400	5,547,560	EMC Corp.* 244,000 1,498,160		
SunTrust Banks, Inc.	69,700	3,967,324	Hewlett-Packard Co. 311,397 5,405,852		
US Bancorp.	222,000	4,710,840	International Business Machines Corp. 20,000 1,550,000		
Wachovia Corp.	156,100	5,688,284	<b>8,454,012</b>		
		<b>46,035,216</b>	<b>Electronic Equipment &amp; Instruments 3.1%</b>		
<b>Diversified Financials 1.8%</b>			Diebold, Inc. 76,000 3,132,720		
Citigroup, Inc.	111,500	3,923,685	Waters Corp.* 159,000 3,463,020		
<b>Insurance 1.4%</b>			<b>6,595,740</b>		
Jefferson-Pilot Corp.	40,100	1,528,211	<b>Semiconductor Equipment &amp; Products 4.2%</b>		
Lincoln National Corp.	47,000	1,484,260	Applied Materials, Inc.* 168,800 2,199,464		
		<b>3,012,471</b>	Intel Corp. 358,700 5,584,959		
<b>Real Estate 0.7%</b>			Texas Instruments, Inc. 84,000 1,260,840		
Post Properties, Inc. (REIT)	61,500	1,469,850	<b>9,045,263</b>		

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

	Shares	Value (\$)		Shares	Value (\$)
<b>Materials 7.6%</b>			<b>Telecommunication Services 0.6%</b>		
<b>Chemicals 3.1%</b>			<b>Diversified Telecommunication Services</b>		
Air Products & Chemicals, Inc.	25,000	1,068,750	Verizon Communications, Inc.	35,000	1,356,250
Dow Chemical Co.	187,300	5,562,810	<b>Total Common Stocks (Cost \$230,326,074)</b>		<b>206,015,541</b>
		<b>6,631,560</b>			
<b>Containers &amp; Packaging 3.0%</b>			<b>Cash Equivalents 3.8%</b>		
Sonoco Products Co.	284,200	6,516,706	Scudder Cash Management QP Trust, 1.4% (b) (Cost \$8,140,963)	8,140,963	8,140,963
<b>Metals &amp; Mining 1.5%</b>			<b>Total Investment Portfolio — 100.0%</b>		
Alcoa, Inc.	143,100	3,259,818	(Cost \$238,467,037) (a)		<b>214,156,504</b>

### Notes to Scudder Contrarian Value Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$241,133,797. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$26,977,293. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$10,527,267 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$37,504,560.
- (b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$238,467,037)	\$ 214,156,504
Receivable for investments sold	1,456,182
Dividends receivable	646,063
Interest receivable	8,388
Receivable for Portfolio shares sold	1,526
<b>Total assets</b>	<b>216,268,663</b>

### Liabilities

Payable for investments purchased	253,655
Payable for Portfolio shares redeemed	433,934
Accrued management fee	145,685
Other accrued expenses and payables	54,404
<b>Total liabilities</b>	<b>887,678</b>
<b>Net assets, at value</b>	<b>\$ 215,380,985</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	\$ 4,275,027
Net unrealized appreciation (depreciation) on investments	(24,310,533)
Accumulated net realized gain (loss)	(38,184,333)
Paid-in capital	273,600,824
<b>Net assets, at value</b>	<b>\$ 215,380,985</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$214,876,535 ÷ 19,122,645 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.24</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$504,450 ÷ 44,927 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.23</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$29,355)	\$ 6,143,580
Interest	410,619
<b>Total Income</b>	<b>6,554,199</b>
Expenses:	
Management fee	1,869,062
Custodian fees	10,428
Distribution service fees	100
Auditing	41,294
Legal	2,365
Trustees' fees and expenses	3,157
Reports to shareholders	34,265
Other	7,922
<b>Total expenses, before expense reductions</b>	<b>1,968,593</b>
Expense reductions	(69)
<b>Total expenses, after expense reductions</b>	<b>1,968,524</b>
<b>Net investment income (loss)</b>	<b>4,585,675</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(15,937,183)
Net unrealized appreciation (depreciation) during the period on investments	(30,380,752)
<b>Net gain (loss) on investment transactions</b>	<b>(46,317,935)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (41,732,260)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 4,585,675	\$ 3,987,152
Net realized gain (loss) on investment transactions	(15,937,183)	(1,618,134)
Net unrealized appreciation (depreciation) on investment transactions during the period	(30,380,752)	1,859,513
Net increase (decrease) in net assets resulting from operations	(41,732,260)	4,228,531
Distributions to shareholders from:		
Net investment income		
Class A	(3,673,679)	(3,893,591)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	51,424,489	66,832,395
Reinvestment of distributions	3,673,679	3,893,591
Cost of shares redeemed	(51,711,686)	(33,531,994)
Net increase (decrease) in net assets from Class A share transactions	3,386,482	37,193,992
<b>Class B*</b>		
Proceeds from shares sold	516,615	—
Cost of shares redeemed	(28)	—
Net increase (decrease) in net assets from Class B share transactions	516,587	—
<b>Increase (decrease) in net assets</b>	<b>(41,502,870)</b>	<b>37,528,932</b>
Net assets at beginning of period	256,883,855	219,354,923
Net assets at end of period (including undistributed net investment income of \$4,275,027 and \$3,617,274, respectively)	<b>\$ 215,380,985</b>	<b>\$ 256,883,855</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	19,168,291	16,365,480
Shares sold	4,009,357	5,066,173
Shares issued to shareholders in reinvestment of distributions	265,248	307,046
Shares redeemed	(4,320,251)	(2,570,408)
Net increase (decrease) in Portfolio shares	(45,646)	2,802,811
Shares outstanding at end of period	<b>19,122,645</b>	<b>19,168,291</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	44,930	—
Shares issued to shareholders in reinvestment of distributions	—	—
Shares redeemed	(3)	—
Net increase (decrease) in Portfolio shares	44,927	—
Shares outstanding at end of period	<b>44,927</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.



# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a</sup>	1998 <sup>a</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 13.40</b>	<b>\$ 13.40</b>	<b>\$ 14.70</b>	<b>\$ 17.57</b>	<b>\$ 15.18</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.23 <sup>b</sup>	.23 <sup>b</sup>	.30 <sup>b</sup>	.37 <sup>b</sup>	.26
Net realized and unrealized gain (loss) on investment transactions	(2.20)	.01	1.40	(1.94)	2.63
<b>Total from investment operations</b>	<b>(1.97)</b>	<b>.24</b>	<b>1.70</b>	<b>(1.57)</b>	<b>2.89</b>
<i>Less distributions from:</i>					
Net investment income	(.19)	(.24)	(.40)	(.30)	(.10)
Net realized gains on investment transactions	—	—	(2.60)	(1.00)	(.40)
<b>Total distributions</b>	<b>(.19)</b>	<b>(.24)</b>	<b>(3.00)</b>	<b>(1.30)</b>	<b>(.50)</b>
<b>Net asset value, end of period</b>	<b>\$ 11.24</b>	<b>\$ 13.40</b>	<b>\$ 13.40</b>	<b>\$ 14.70</b>	<b>\$ 17.57</b>
Total Return (%)	(14.98)	1.87	16.13	(10.21)	19.26

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	215	257	219	237	264
Ratio of expenses before expense reductions (%)	.79	.79	.80	.81	.78
Ratio of expenses after expense reductions (%)	.79	.79	.80	.80	.78
Ratio of net investment income (loss) (%)	1.84	1.75	2.55	2.14	2.02
Portfolio turnover rate (%)	84	72	56	88	57

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> Based on average shares outstanding during the period.

## Class B

2002<sup>a</sup>

### Selected Per Share Data

<b>Net asset value, beginning of period</b>	<b>\$ 12.77</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.15
Net realized and unrealized gain (loss) on investment transactions	(1.69)
<b>Total from investment operations</b>	<b>(1.54)</b>
<b>Net asset value, end of period</b>	<b>\$ 11.23</b>
Total Return (%)	(12.06)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.5
Ratio of expenses (%)	1.04*
Ratio of net investment income (loss) (%)	2.74*
Portfolio turnover rate (%)	84

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## Scudder Global Blue Chip Portfolio

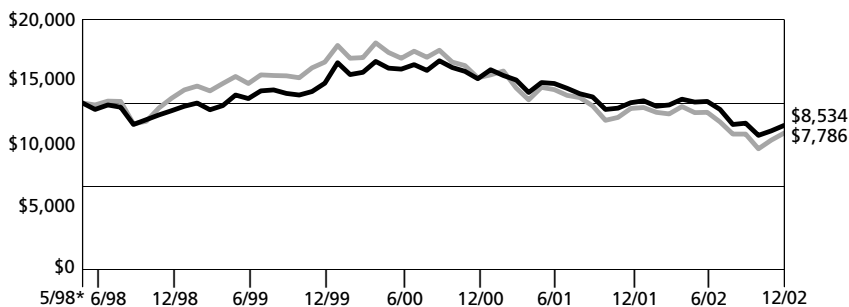
Global equities fell in 2002 for the third consecutive year. There was no news from Europe or Japan to suggest that the burden of driving the global economy would be shared with the United States. On the contrary, as Japan edged tantalizingly closer to dealing with the problems within its financial system and as authorities attempted to talk down the yen, we were again reminded that so much depends on the United States and on the US dollar, which reached a three-year low against the euro over the past year.

Against this harsh backdrop, Scudder Global Blue Chip Portfolio (Class A shares) declined 15.77 percent. The portfolio's relative resilience continued to stem from the thematic structure that is, broadly speaking, conservative compared with the typical global portfolio. Some of our more defensive themes, such as Ultimate Subcontractors (materials) and gold mining stocks, contributed to performance. Because of our concerns about credit and bankruptcy risk, the fund had low exposure to financials, which also helped to offset losses. Detractors from performance fell within our themes in riskier sectors, including Scale Subcontractors (telecom, tech, pharmaceuticals) and Virtuality (biotech, software). Looking ahead, our analysis suggests a lower-return environment than that of the 1990s. The transition into this newer environment has been complex, volatile and exacerbated by geopolitical tension, and we expect this to continue into the first half of 2003.

William E. Holzer                      Peter Crays  
 Steve Wreford                         Nicholas Bratt  
 Co-Managers  
 Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder Global Blue Chip Portfolio from 5/5/1998 to 12/31/2002

- Scudder Global Blue Chip Portfolio — Class A
- MSCI World Index



*MSCI World Index is an unmanaged, capitalization-weighted measure of stock markets around the world, including North America, Europe, Australia and Asia. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index.*

### Average Annual Total Returns<sup>1</sup>

Scudder Global Blue Chip Portfolio	1-Year	3-Year	Life of Portfolio <sup>2</sup>
Class A	-15.77%	-11.72%	-3.35% (Since 5/5/1998)*

\* The Portfolio commenced operations on May 5, 1998. Index returns begin April 30, 1998.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower. Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## Scudder Global Blue Chip Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 92.4%</b>					
<b>Australia 2.9%</b>					
Alumina Ltd.	72,900	200,306	Nomura Holdings, Inc.	34,000	381,977
BHP Billiton Ltd.	100,205	570,328	Sega Corp.*	36,300	357,681
Foster's Group Ltd.	116,800	294,730	Sony Corp.	7,600	317,467
WMC Resources Ltd.*	72,900	172,508	Teijin Ltd.	99,000	236,786
		<b>1,237,872</b>	Yamada Denki Co., Ltd.	9,900	208,855
			Yamanouchi Pharmaceutical Co., Ltd.	12,000	347,650
<b>Brazil 1.0%</b>					
Aracruz Celulose SA "B" (ADR)	13,600	252,416			<b>4,351,789</b>
Companhia Vale do Rio Doce (ADR)	5,500	151,250			
		<b>403,666</b>	<b>Korea 0.6%</b>		
<b>Canada 6.6%</b>					
Alcan, Inc.	8,616	253,705	Kookmin Bank (ADR)	1,200	42,420
Barrick Gold Corp.	22,900	352,889	Kookmin Bank	5,400	191,223
Canadian National Railway Co.	9,100	377,499			<b>233,643</b>
Encana Corp.	23,699	734,738	<b>Netherlands 0.4%</b>		
Goldcorp, Inc.	19,900	253,714	STMicroelectronics NV	9,667	189,590
Meridian Gold, Inc.*	13,500	238,013	<b>Peru 0.4%</b>		
Placer Dome, Inc.	50,500	573,236	Compania de Minas Buenaventura SA (ADR)	5,700	150,423
		<b>2,783,794</b>	<b>Russia 0.4%</b>		
<b>France 4.7%</b>					
Autoroutes du Sud de la France*	18,165	439,215	GMK Norilsk Nickel (ADR)	2,300	46,023
Aventis SA	9,014	490,225	LUKOIL	1,700	104,338
Compagnie de Saint-Gobain*	11,128	326,665			<b>150,361</b>
Suez SA	16,587	288,039	<b>Singapore 1.9%</b>		
Vinci SA	7,865	443,426	DBS Group Holdings Ltd.	40,000	253,661
		<b>1,987,570</b>	Flextronics International Ltd.*	24,600	201,474
<b>Germany 2.9%</b>					
Bayer AG	14,976	314,466	Haw Par Corp., Ltd.	2,208	4,149
E.ON AG	6,220	250,766	United Overseas Bank Ltd.	54,000	367,347
KarstadtQuelle AG	2,358	39,611			<b>826,631</b>
MLP AG	8,435	85,017	<b>South Africa 2.6%</b>		
Muenchener Ruckversicherungs-Gesellschaft AG (Registered)	2,063	246,701	AngloAmerican Platinum Corp., Ltd (ADR)	5,400	199,098
Schering AG	7,000	304,996	Gold Fields Ltd. (ADR)	43,300	605,760
		<b>1,241,557</b>	Impala Platinum Holdings Ltd. (ADR)	9,400	301,270
<b>Hong Kong 2.5%</b>					
Bank of East Asia Ltd.	122,000	208,848			<b>1,106,128</b>
China Mobile Ltd.*	129,600	308,275	<b>Switzerland 5.0%</b>		
CLP Holdings Ltd.	60,500	243,598	Nestle SA (Registered)	3,818	809,753
Hutchison Whampoa Ltd.	51,000	319,138	Novartis AG (Registered)	12,370	451,731
		<b>1,079,859</b>	Swiss Re (Registered)	6,047	397,005
<b>Japan 10.2%</b>					
Canon, Inc.	12,000	451,743	Syngenta AG	8,085	468,479
Daiwa Securities Group, Inc.	26,000	115,395			<b>2,126,968</b>
Fanuc Ltd.	10,500	464,250	<b>United Kingdom 13.5%</b>		
Fuji Photo Film Co., Ltd.	14,000	456,291	ARM Holdings PLC*	77,795	60,165
Mitsubishi Estate Co., Ltd.	69,000	525,316	BOC Group PLC	38,666	553,212
Mitsui Fudosan Co., Ltd.	67,000	434,479	British Sky Broadcasting Group PLC*	14,695	151,293
Nikko Cordial Corp.	16,000	53,899	Diageo PLC	38,776	421,713
			GlaxoSmithKline PLC	18,634	357,876
			GUS PLC	46,754	434,655
			National Grid Transco PLC	69,292	509,652
			Pearson PLC	47,230	437,177
			Reed Elsevier PLC	52,541	450,360
			Reuters Group PLC	60,906	174,184
			Rio Tinto PLC	36,645	732,127

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

	Shares	Value (\$)
RT Group PLC*	54,206	206,115
Shell Transport & Trading Co., PLC	63,081	415,692
Unilever PLC	48,108	458,094
Vodafone Group PLC	206,692	377,148
		<b>5,739,463</b>
<b>United States 36.8%</b>		
Allegheny Energy, Inc.	11,700	88,452
Amgen, Inc.*	6,576	317,884
Anadarko Petroleum Corp.	16,300	780,770
Automatic Data Processing, Inc.	7,400	290,450
Boston Properties, Inc. (REIT)	11,300	416,518
Burlington Resources, Inc.	11,000	469,150
Calpine Corp.*	38,400	125,184
Comcast Corp. "A"*	13,000	293,670
ConocoPhillips	9,700	469,383
Dow Chemical Co.	12,600	374,220
eBay, Inc.*	2,600	176,332
Electronic Arts, Inc.*	1,700	84,609
EMC Corp.*	23,500	144,290
Entergy Corp.	9,800	446,782
Equity Residential (REIT)	16,900	415,402
Exelon Corp.	12,275	647,752
Exxon Mobil Corp.	12,700	443,738
Genentech, Inc.*	4,500	149,220
Genzyme Corp.* (General Division)	5,100	150,807
Guidant Corp.*	5,900	182,015
Human Genome Sciences, Inc.*	19,900	175,319
Intel Corp.	22,000	342,540
International Business Machines Corp.	7,100	550,250
International Paper Co.	10,100	353,197
Intuit, Inc.*	9,500	445,740
Liberty Media Corp. "A"*	31,800	284,292
Lockheed Martin Corp.	12,000	693,000
McGraw-Hill, Inc.	7,900	477,476
Merck & Co., Inc.	9,100	515,151
Microsoft Corp.*	13,300	687,610
Newmont Mining Corp.	30,500	885,413
PeopleSoft, Inc.*	23,600	431,880
Pfizer, Inc.	15,800	483,006
ProLogis (REIT)	18,500	465,275
Schering-Plough Corp.	22,100	490,620
SLM Corp.	5,100	529,686
Unocal Corp.	15,900	486,222
USEC, Inc.	7,000	42,140
VERITAS Software Corp.*	13,100	204,622
Verizon Communications, Inc.	8,000	310,000
Wyeth	8,200	306,680
		<b>15,626,747</b>
<b>Total Common Stocks (Cost \$43,836,594)</b>		<b>39,236,061</b>

	Principal Amount (\$ (c))	Value (\$)
<b>Convertible Bonds 4.9%</b>		
<b>France 2.0%</b>		
France Telecom:		
2.0%, 1/1/2004	119,207	123,005
4.0%, 11/29/2005	115,000	113,651
Havas, 4.0%, 1/1/2009	279,027	264,882
Vivendi SA, 1.0%, 7/5/2003	346,734	362,513
		<b>864,051</b>
<b>Netherlands 1.7%</b>		
ASM Lithography, 4.25%, 11/30/2004	280,000	239,764
Royal KPN NV, 3.5%, 11/24/2005	245,000	242,769
VNU NV, 1.75%, 11/15/2004	216,000	235,212
		<b>717,745</b>
<b>United Kingdom 0.6%</b>		
Carlton Commications, 2.25%, 1/4/2007	250,000	241,818
<b>United States 0.6%</b>		
Nextel Communications, 4.75%, 7/1/2007	279,000	234,360
<b>Total Convertible Bonds (Cost \$1,810,021)</b>		<b>2,057,974</b>
<b>Foreign Bonds — US\$ Denominated 0.5%</b>		
<b>Netherlands</b>		
Deutsche Telecom, 8.25%, 6/15/2030 (Cost \$200,861)	200,000	231,030
<b>Foreign Bonds — Non US\$ Denominated 2.2%</b>		
<b>Germany</b>		
Bundesobligation, Series 127, 4.5%, 5/19/2003 (Cost \$925,551)	EUR 900,000	950,570
	<b>Shares</b>	<b>Value (\$)</b>
<b>Cash Equivalents 0.0%</b>		
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$985)	985	985
<b>Total Investment Portfolio — 100.0%</b> (Cost \$46,774,012) (a)		<b>42,476,620</b>

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

At December 31, 2002, the Scudder Global Blue Chip Portfolio had the following industry diversification:

Industry	Value	Percent
Materials	\$ 8,280,979	19.5%
Financials	5,130,169	12.1%
Health Care	4,723,180	11.1%
Consumer Discretionary	4,259,344	10.0%
Energy	3,904,031	9.2%
Information Technology	3,794,513	9.0%
Industrials	3,563,907	8.4%
Utilities	2,600,225	6.1%
Other	2,979,713	7.0%
<b>Total Common Stocks</b>	<b>39,236,061</b>	<b>92.4%</b>
Convertible Bonds	2,057,974	4.9%
Foreign Bonds — Non US\$ Denominated	950,570	2.2%
Foreign Bonds — US\$ Denominated	231,030	0.5%
Cash Equivalents	985	0.0%
<b>Total Investment Portfolio</b>	<b>\$ 42,476,620</b>	<b>100.0%</b>

#### Notes to Scudder Global Blue Chip Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$46,816,172. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$4,339,552. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$3,255,121 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$7,594,673.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(c) Principal amount in US dollars unless otherwise noted.

#### Currency Abbreviation

EUR	Euro
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# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$46,774,012)	\$ 42,476,620
Cash	1,773
Receivable for investments sold	249,188
Dividends receivable	47,297
Interest receivable	57,679
Receivable for Portfolio shares sold	147,276
Foreign taxes recoverable	27,779
Other assets	726
<b>Total assets</b>	<b>43,008,338</b>

### Liabilities

Notes payable	150,000
Payable for Portfolio shares redeemed	215
Unrealized depreciation on forward foreign currency exchange contracts	42,097
Accrued management fee	36,124
Other accrued expenses and payables	30,657
<b>Total liabilities</b>	<b>259,093</b>
<b>Net assets, at value</b>	<b>\$ 42,749,245</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	177,943
Net unrealized appreciation (depreciation) on:	
Investments	(4,297,392)
Foreign currency related transactions	(35,917)
Accumulated net realized gain (loss)	(8,991,039)
Paid-in capital	55,895,650
<b>Net assets, at value</b>	<b>\$ 42,749,245</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$42,550,569 ÷ 5,267,978 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 8.08</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$198,676 ÷ 24,654 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 8.06</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$46,133)	\$ 753,391
Interest	207,615
<b>Total Income</b>	<b>961,006</b>
Expenses:	
Management fee	454,436
Custodian and accounting fees	129,453
Distribution service fees	47
Auditing	7,167
Legal	1,060
Trustees' fees and expenses	970
Interest expense	144
Reports to shareholders	6,285
Other	1,459
<b>Total expenses</b>	<b>601,021</b>
<b>Net investment income (loss)</b>	<b>359,985</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(5,310,492)
Foreign currency related transactions	(123,174)
	(5,433,666)
Net unrealized appreciation (depreciation) during the period on:	
Investments	(2,645,239)
Foreign currency related transactions	(142,776)
	(2,788,015)
<b>Net gain (loss) on investment transactions</b>	<b>(8,221,681)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (7,861,696)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 359,985	\$ 276,757
Net realized gain (loss) on investment transactions	(5,433,666)	(2,830,053)
Net unrealized appreciation (depreciation) on investment transactions during the period	(2,788,015)	(3,381,648)
Net increase (decrease) in net assets resulting from operations	(7,861,696)	(5,934,944)
Distributions to shareholders from:		
Net investment income		
Class A	(282,572)	—
Net realized gains		
Class A	—	(1,040,793)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	40,590,022	28,559,273
Reinvestment of distributions	282,572	1,040,793
Cost of shares redeemed	(34,633,900)	(11,551,197)
Net increase (decrease) in net assets from Class A share transactions	6,238,694	18,048,869
<b>Class B*</b>		
Proceeds from shares sold	231,749	—
Cost of shares redeemed	(34,683)	—
Net increase (decrease) in net assets from Class B share transactions	197,066	—
<b>Increase (decrease) in net assets</b>	<b>(1,708,508)</b>	<b>11,073,132</b>
Net assets at beginning of period	44,457,753	33,384,621
Net assets at end of period (including undistributed net investment income of \$177,943 and \$243,658, respectively)	<b>\$ 42,749,245</b>	<b>\$ 44,457,753</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	4,612,725	2,826,231
Shares sold	4,422,044	2,838,959
Shares issued to shareholders in reinvestment of distributions	29,191	103,377
Shares redeemed	(3,795,982)	(1,155,842)
Net increase (decrease) in Portfolio shares	655,253	1,786,494
Shares outstanding at end of period	<b>5,267,978</b>	<b>4,612,725</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	29,051	—
Shares redeemed	(4,397)	—
Net increase (decrease) in Portfolio shares	24,654	—
Shares outstanding at end of period	<b>24,654</b>	—

\*For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a</sup>	1998 <sup>a,b</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 9.64</b>	<b>\$ 11.81</b>	<b>\$ 12.37</b>	<b>\$ 9.79</b>	<b>\$ 10.00</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.07 <sup>c</sup>	.08 <sup>c</sup>	.03 <sup>c</sup>	.04 <sup>c</sup>	.03
Net realized and unrealized gain (loss) on investment transactions	(1.57)	(1.90)	(.44)	2.57	(.24)
<b>Total from investment operations</b>	<b>(1.50)</b>	<b>(1.82)</b>	<b>(.41)</b>	<b>2.61</b>	<b>(.21)</b>
<i>Less distributions from:</i>					
Net investment income	(.06)	—	—	(.03)	—
Net realized gains on investment transactions	—	(.35)	(.15)	—	—
<b>Total distributions</b>	<b>(.06)</b>	<b>(.35)</b>	<b>(.15)</b>	<b>(.03)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 8.08</b>	<b>\$ 9.64</b>	<b>\$ 11.81</b>	<b>\$ 12.37</b>	<b>\$ 9.79</b>
Total Return (%)	(15.77)	(15.48)	(3.36) <sup>d</sup>	26.70 <sup>d</sup>	(2.10) <sup>d**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	43	44	33	17	4
Ratio of expenses before expense reductions (%)	1.32	1.24	1.78	3.47	12.32*
Ratio of expenses after expense reductions (%)	1.32	1.24	1.50	1.56	1.56*
Ratio of net investment income (loss) (%)	.79	.76	.28	.39	.91*
Portfolio turnover rate (%)	41	52	54	65	67*

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> For the period from May 5, 1998 (commencement of operations) to December 31, 1998.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> Total returns would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
<b>Net asset value, beginning of period</b>	<b>\$ 8.98</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.02
Net realized and unrealized gain (loss) on investment transactions	(.94)
<b>Total from investment operations</b>	<b>(.92)</b>
<b>Net asset value, end of period</b>	<b>\$ 8.06</b>
Total Return (%)	(10.24)**
<b>Ratios to Average Net Assets and Supplemental Data</b>	
Net assets, end of period (\$ millions)	.2
Ratio of expenses (%)	1.60*
Ratio of net investment income (loss) (%)	.49*
Portfolio turnover rate (%)	41

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized



## Scudder Government Securities Portfolio

The bond market had a strong year in 2002. Interest rates remained low throughout 2002, and in November the Federal Reserve Board reduced the federal funds rate to 1.25 percent from 1.75 percent. For much of the year, corporate accounting concerns weighed on the corporate bond market, causing investors to seek refuge in the higher-grade sectors, such as mortgage-backed securities, US Treasury and government-agency issues, asset-backed securities and commercial mortgages.

In this environment, the portfolio's total return (Class A shares) was 8.05 percent. The portfolio benefited from its increased exposure to GNMA securities, and we believe GNMA's will continue to perform well and offer investors attractive yields. Over the past year, we have spent most of our time trying to minimize prepayment risk, in part by increasing our holdings of new GNMA securities. These securities tend to have a lower prepayment rate than one- and two-year-old securities. The fund's exposure to 15-year mortgages, which have been less susceptible to prepayments, also has increased.

Going forward, we are encouraged by the willingness of the Federal Reserve Board to provide fiscal stimulus through its monetary policy, and by the administration's efforts to provide fiscal stimulus during a period of economic uncertainty. Corporate bonds can be expected to perform better in a stronger economy, and we believe mortgage-backed and government-agency securities are likely to provide more investment opportunities if Treasury issuance increases.

Scott E. Dolan, Lead Manager

John Dugenske

Sean McCaffrey

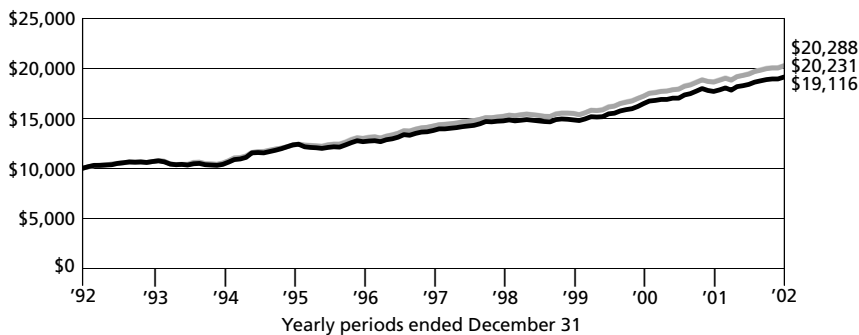
William Chepolis

Portfolio Managers

Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder Government Securities Portfolio from 12/31/1992 to 12/31/2002

- Scudder Government Securities Portfolio — Class A
- Lehman Brothers GNMA Index
- Salomon Smith Barney 30-year GNMA Index



The unmanaged Lehman Brothers GNMA Index is a market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association. The Salomon Smith Barney 30-year GNMA Index is unmanaged, is on a total return basis with all dividends reinvested and is composed of GNMA 30-year pass-throughs of single family and graduated payment mortgages. In order for a GNMA coupon to be included in the index, it must have at least \$200 million of outstanding coupon product. Index returns assume reinvestment of dividends and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index. Beginning with the next annual report, the Lehman Brothers GNMA Index, which better reflects the Portfolio's investment style, will be shown instead of the Salomon Smith Barney 30-year GNMA Index.

### Average Annual Total Returns<sup>1</sup>

Scudder Government Securities Portfolio	1-Year	3-Year	5-Year	10-Year
Class A	8.05%	8.81%	6.78%	6.69% (Since 9/3/1987)

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.



# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$718,769,750)	\$ 725,597,726
Receivable for investments sold	137,128,507
Interest receivable	1,977,364
Receivable for Portfolio shares sold	143,538
Receivable for daily variation margin on open futures contracts	30,937
Other assets	8,802
<b>Total assets</b>	<b>864,886,874</b>

### Liabilities

Payable for investments purchased	168,860,440
Payable for when-issued or forward delivery securities	48,834,688
Payable for investments purchased-mortgage dollar rolls	92,730,613
Deferred mortgage dollar roll income	104,225
Payable for Portfolio shares redeemed	225,055
Accrued management fee	265,401
Other accrued expenses and payables	78,537
<b>Total liabilities</b>	<b>311,098,959</b>
<b>Net assets, at value</b>	<b>\$ 553,787,915</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	15,075,238
Net unrealized appreciation (depreciation) on:	
Investments	6,827,976
Futures	(338,532)
Accumulated net realized gain (loss)	9,301,102
Paid-in capital	522,922,131
<b>Net assets, at value</b>	<b>\$ 553,787,915</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$551,019,365 ÷ 42,918,597 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.84</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$2,768,550 ÷ 216,015 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.82</b>
---	-----------------

## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Interest	\$ 22,063,886
Mortgage dollar roll income	1,471,136
<b>Total Income</b>	<b>23,535,022</b>
Expenses:	
Management fee	2,330,550
Custodian fees	23,921
Distribution service fees	618
Auditing	52,404
Legal	6,715
Trustees' fees and expenses	4,417
Reports to shareholders	55,089
Other	34,104
<b>Total expenses</b>	<b>2,507,818</b>
<b>Net investment income</b>	<b>21,027,204</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	5,632,493
Futures	(500,034)
	5,132,459
Net unrealized appreciation (depreciation) during the period on:	
Investments	6,332,099
Futures	(338,532)
	5,993,567
<b>Net gain (loss) on investment transactions</b>	<b>11,126,026</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 32,153,230</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 21,027,204	\$ 11,860,030
Net realized gain (loss) on investment transactions	5,132,459	5,265,362
Net unrealized appreciation (depreciation) on investment transactions during the period	5,993,567	(1,657,525)
Net increase (decrease) in net assets resulting from operations	32,153,230	15,467,867
Distributions to shareholders from:		
Net investment income		
Class A	(11,715,627)	(8,562,567)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	298,429,792	215,007,849
Reinvestment of distributions	11,715,627	8,562,567
Cost of shares redeemed	(84,769,500)	(77,005,299)
Net increase (decrease) in net assets from Class A share transactions	225,375,919	146,565,117
<b>Class B*</b>		
Proceeds from shares sold	2,771,516	—
Cost of shares redeemed	(20,523)	—
Net increase (decrease) in net assets from Class B share transactions	2,750,993	—
<b>Increase (decrease) in net assets</b>	<b>248,564,515</b>	<b>153,470,417</b>
Net assets at beginning of period	305,223,400	151,752,983
Net assets at end of period (including undistributed net investment income of \$15,075,238 and \$10,988,348, respectively)	<b>\$ 553,787,915</b>	<b>\$ 305,223,400</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	24,768,244	12,690,900
Shares sold	23,909,004	17,709,116
Shares issued to shareholders in reinvestment of distributions	978,749	729,095
Shares redeemed	(6,737,400)	(6,360,867)
Net increase (decrease) in Portfolio shares	18,150,353	12,077,344
Shares outstanding at end of period	<b>42,918,597</b>	<b>24,768,244</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	217,485	—
Shares issued to shareholders in reinvestment of distributions	—	—
Shares redeemed	(1,470)	—
Net increase (decrease) in Portfolio shares	216,015	—
Shares outstanding at end of period	<b>216,015</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

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

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001 <sup>a</sup>	2000 <sup>b</sup>	1999 <sup>b</sup>	1998 <sup>b</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 12.32	\$ 11.96	\$ 11.56	\$ 12.08	\$ 12.07
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.62 <sup>c</sup>	.61 <sup>c</sup>	.75 <sup>c</sup>	.72 <sup>c</sup>	.62
Net realized and unrealized gain (loss) on investment transactions	.35	.25	.45	(.64)	.19
<b>Total from investment operations</b>	<b>.97</b>	<b>.86</b>	<b>1.20</b>	<b>.08</b>	<b>.81</b>
<i>Less distributions from:</i>					
Net investment income	(.45)	(.50)	(.80)	(.60)	(.80)
<b>Total distributions</b>	<b>(.45)</b>	<b>(.50)</b>	<b>(.80)</b>	<b>(.60)</b>	<b>(.80)</b>
Net asset value, end of period	\$ 12.84	\$ 12.32	\$ 11.96	\$ 11.56	\$ 12.08
Total Return (%)	8.05	7.48	10.93	.68	7.03
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	551	305	152	146	123
Ratio of expenses before expense reductions (%)	.59	.60	.61	.63	.65
Ratio of expenses after expense reductions (%)	.59	.60	.60	.63	.65
Ratio of net investment income (loss) (%)	4.96	5.06	6.60	6.13	6.27
Portfolio turnover rate (%)	534 <sup>d</sup>	334	173	150	142

<sup>a</sup> As required, effective January 1, 2001, the Portfolio has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. In addition, paydowns on mortgage-backed securities which were included in realized gain/loss on investment transactions prior to January 1, 2001 are included as interest income. The effect of this change for the year ended December 31, 2001 was to decrease net investment income per share by \$.08, increase net realized and unrealized gains and losses per share by \$.08 and decrease the ratio of net investment income to average net assets from 5.67% to 5.06%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.

<sup>b</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> The portfolio turnover rate including mortgage dollar roll transactions was 651% for the year ended December 31, 2002.

## Class B

Years Ended December 31,	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
Net asset value, beginning of period	\$ 12.36
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.31
Net realized and unrealized gain (loss) on investment transactions	.15
<b>Total from investment operations</b>	<b>.46</b>
Net asset value, end of period	\$ 12.82
Total Return (%)	3.72 <sup>**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>	
Net assets, end of period (\$ millions)	3
Ratio of expenses (%)	.84 <sup>*</sup>
Ratio of net investment income (loss) (%)	4.95 <sup>*</sup>
Portfolio turnover rate (%)	534 <sup>c</sup>

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

<sup>c</sup> The portfolio turnover rate including mortgage dollar roll transactions was 651% for the year ended December 31, 2002.

<sup>\*</sup> Annualized

<sup>\*\*</sup> Not annualized

## Scudder Growth Portfolio

US equity markets declined for the third year in a row in 2002, although the fourth quarter turned out to be relatively strong. Through most of the year, investment markets struggled under the weight of continued earnings warnings from high-profile companies, investor focus on negative corporate and economic news, and the risk of war with Iraq. Also, as value stocks completed their third year of outperformance versus growth stocks, large-cap growth portfolios, such as this one, underperformed in the broad-based market decline.

In this environment, the portfolio's total return declined during the period. The portfolio's financial, information technology and consumer staples holdings made positive contributions to performance. However, the portfolio's industrial and telecommunications holdings detracted from performance.

In December, a new investment team — Julie M. Van Cleave, Jack A. Zehner and Thomas J. Schmid — assumed management of the portfolio. Most recently, the group managed Mason Street Growth Stock Fund. The team is realigning the portfolio, using a top-down process that is combined with in-depth company research. When the realignment is complete, the portfolio will be diversified among 70 to 90 high-quality growth stocks across all sectors, emphasizing those that the managers believe to offer the best potential for delivering strong and sustainable earnings growth.

Julie M. Van Cleave

Jack A. Zehner

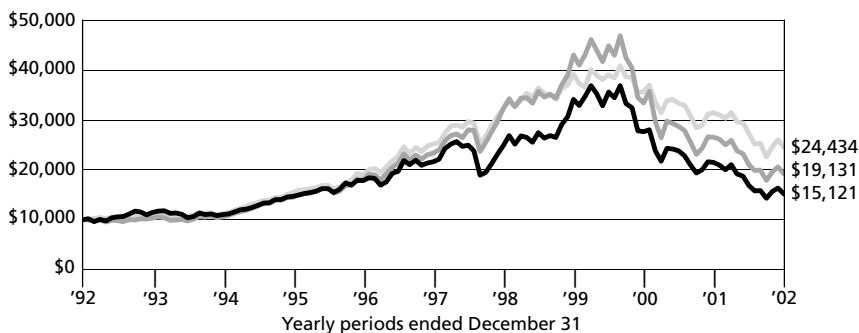
Thomas J. Schmid

Co-Managers

Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder Growth Portfolio from 12/31/1992 to 12/31/2002

- Scudder Growth Portfolio — Class A
- Russell 1000 Growth Index
- S&P 500 Index



The Russell 1000 Growth Index is an unmanaged index composed of common stock of larger US companies with greater than average growth orientation and represents the universe of stocks from which "earnings/growth" money managers typically select. The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the Russell 1000 Growth Index, which better reflects the Portfolio's investment style, will be shown instead of the S&P 500 Index.

### Average Annual Total Returns<sup>1</sup>

Scudder Growth Portfolio	1-Year	3-Year	5-Year	10-Year	(Since 12/9/1983)
Class A	-29.41%	-23.73%	-6.88%	4.22%	

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details. Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## Scudder Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 98.6%</b>					
<b>Consumer Discretionary 19.7%</b>					
<b>Automobiles 1.5%</b>					
Harley-Davidson, Inc.	81,600	3,769,920			
<b>Hotel Restaurants &amp; Leisure 1.2%</b>					
International Game Technology*	38,300	2,907,736			
<b>Media 6.3%</b>					
AOL Time Warner, Inc.*	230,580	3,020,598			
Clear Channel Communications, Inc.*	77,950	2,906,756			
Comcast Corp. "A"*	110,600	2,498,454			
Omnicom Group, Inc.	52,340	3,381,164			
Viacom, Inc. "B"*	91,030	3,710,383			
		<b>15,517,355</b>			
<b>Multiline Retail 6.0%</b>					
Kohl's Corp.*	64,400	3,603,180			
Target Corp.	141,200	4,236,000			
Wal-Mart Stores, Inc.	139,190	7,030,487			
		<b>14,869,667</b>			
<b>Specialty Retail 4.7%</b>					
Home Depot, Inc.	150,025	3,594,599			
Staples, Inc.*	275,100	5,034,330			
TJX Companies, Inc.	158,300	3,090,016			
		<b>11,718,945</b>			
<b>Consumer Staples 8.9%</b>					
<b>Beverages 2.4%</b>					
Anheuser-Busch Companies, Inc.	53,500	2,589,400			
PepsiCo, Inc.	80,950	3,417,709			
		<b>6,007,109</b>			
<b>Food &amp; Drug Retailing 1.3%</b>					
Walgreen Co.	109,200	3,187,548			
<b>Household Products 5.2%</b>					
Clorox Co.	65,900	2,718,375			
Colgate-Palmolive Co.	99,840	5,234,611			
Procter & Gamble Co.	57,300	4,924,362			
		<b>12,877,348</b>			
<b>Energy 5.6%</b>					
<b>Energy Equipment &amp; Services 3.0%</b>					
Baker Hughes, Inc.	50,100	1,612,719			
Nabors Industries Ltd.*	85,800	3,026,166			
Noble Corp.*	78,600	2,762,790			
		<b>7,401,675</b>			
<b>Oil &amp; Gas 2.6%</b>					
Devon Energy Corp.	60,700	2,786,130			
EOG Resources, Inc.	95,000	3,792,400			
		<b>6,578,530</b>			
<b>Financials 9.5%</b>					
<b>Banks 2.0%</b>					
Fifth Third Bancorp.	82,300	4,818,665			
<b>Diversified Financials 6.1%</b>					
Citigroup, Inc.	77,800	2,737,782			
Fannie Mae	36,000	2,315,880			
Freddie Mac	50,300	2,970,215			
Lehman Brothers Holdings, Inc.	43,100	2,296,799			
Morgan Stanley	61,400	2,451,088			
State Street Corp.	62,800	2,449,200			
		<b>15,220,964</b>			
<b>Insurance 1.4%</b>					
American International Group, Inc.	59,910	3,465,794			
<b>Health Care 23.9%</b>					
<b>Biotechnology 2.8%</b>					
Amgen, Inc.*	100,700	4,867,838			
IDEC Pharmaceuticals Corp.*	61,000	2,023,370			
		<b>6,891,208</b>			
<b>Health Care Equipment &amp; Supplies 5.2%</b>					
Baxter International, Inc.	86,300	2,416,400			
Medtronic, Inc.	160,700	7,327,920			
Zimmer Holdings, Inc.*	74,900	3,109,848			
		<b>12,854,168</b>			
<b>Health Care Providers &amp; Services 1.1%</b>					
Laboratory Corp. of America Holdings*	114,200	2,654,008			
<b>Pharmaceuticals 14.8%</b>					
Johnson & Johnson	209,786	11,267,606			
Merck & Co., Inc.	47,000	2,660,670			
Pfizer, Inc.	383,942	11,737,107			
Pharmacia Corp.	77,700	3,247,860			
Teva Pharmaceutical Industries Ltd. (ADR)	63,800	2,463,318			
Wyeth	145,900	5,456,660			
		<b>36,833,221</b>			
<b>Industrials 8.0%</b>					
<b>Aerospace &amp; Defense 2.0%</b>					
United Technologies Corp.	80,000	4,955,200			
<b>Commercial Services &amp; Supplies 1.7%</b>					
Fiserv, Inc.*	76,400	2,593,780			
Paychex, Inc.	59,300	1,654,470			
		<b>4,248,250</b>			
<b>Electrical Equipment 0.9%</b>					
Molex, Inc.	100,900	2,324,736			
<b>Industrial Conglomerates 3.4%</b>					
3M Co.	10,400	1,282,320			
General Electric Co.	295,140	7,186,659			
		<b>8,468,979</b>			

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

	Shares	Value (\$)
<b>Information Technology 22.2%</b>		
<b>Communications Equipment 2.6%</b>		
Cisco Systems, Inc.*	496,120	6,499,172
<b>Computers &amp; Peripherals 3.6%</b>		
EMC Corp.*	468,000	2,873,520
International Business Machines Corp.	78,700	6,099,250
		<b>8,972,770</b>
<b>Semiconductor Equipment &amp; Products 6.4%</b>		
Analog Devices, Inc.*	106,400	2,539,768
Applied Materials, Inc.*	285,560	3,720,847
Intel Corp.	332,140	5,171,420
Linear Technology Corp.	118,930	3,058,880
Xilinx, Inc.*	64,700	1,332,820
		<b>15,823,735</b>

	Shares	Value (\$)
<b>Software 9.6%</b>		
Electronic Arts, Inc.*	33,500	1,667,295
Microsoft Corp.*	329,740	17,047,556
Oracle Corp.*	229,100	2,474,280
PeopleSoft, Inc.*	147,000	2,690,100
		<b>23,879,231</b>

**Materials 0.8%**

**Chemicals**

Ecolab, Inc.	39,900	1,975,050
<b>Total Common Stocks (Cost \$267,836,626)</b>		<b>244,720,984</b>

**Cash Equivalents 1.4%**

Scudder Cash Management QP Trust, 1.4% (b) (Cost \$3,466,819)	3,466,819	3,466,819
<b>Total Investment Portfolio — 100.0%</b> (Cost \$271,303,445) (a)		<b>248,187,803</b>

**Notes to Scudder Growth Portfolio of Investments**

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$272,955,994. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$24,768,191. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$11,903,939 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$36,672,130.
- (b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.



# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$271,303,445)	\$ 248,187,803
Dividends receivable	228,530
Interest receivable	4,443
Receivable for Portfolio shares sold	262
Other assets	4,139
<b>Total assets</b>	<b>248,425,177</b>

### Liabilities

Payable for investments purchased	1,376,973
Payable for Portfolio shares redeemed	836,459
Accrued management fee	131,277
Other accrued expenses and payables	71,232
<b>Total liabilities</b>	<b>2,415,941</b>
<b>Net assets, at value</b>	<b>\$ 246,009,236</b>

### Net Assets

Net assets consist of:

Undistributed net investment income	199,881
Net unrealized appreciation (depreciation) on investments	(23,115,642)
Accumulated net realized gain (loss)	(148,145,055)
Paid-in capital	417,070,052
<b>Net assets, at value</b>	<b>\$ 246,009,236</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$245,878,570 ÷ 16,549,770 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 14.86</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$130,666 ÷ 8,811 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 14.83</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$1,830)	\$ 2,202,013
Interest	95,580
<b>Total Income</b>	<b>2,297,593</b>
Expenses:	
Management fee	1,930,712
Custodian fees	15,824
Distribution service fees	28
Auditing	54,963
Legal	5,498
Trustees' fees and expenses	421
Reports to shareholders	22,585
Other	15,107
<b>Total expenses, before expense reductions</b>	<b>2,045,138</b>
Expense reductions	(24)
<b>Total expenses, after expense reductions</b>	<b>2,045,114</b>
<b>Net investment income (loss)</b>	<b>252,479</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(51,146,336)
Foreign currency related transactions	560
	(51,145,776)
Net unrealized appreciation (depreciation) during the period on:	
Investments	(66,147,616)
Foreign currency related transactions	(195)
	(66,147,811)
<b>Net gain (loss) on investment transactions</b>	<b>(117,293,587)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (117,041,108)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 252,479	\$ 590,063
Net realized gain (loss) on investment transactions	(51,145,776)	(82,895,818)
Net unrealized appreciation (depreciation) on investment transactions during the period	(66,147,811)	(47,491,840)
Net increase (decrease) in net assets resulting from operations	(117,041,108)	(129,797,595)
Distributions to shareholders from:		
Net investment income		
Class A	—	(587,343)
Net realized gains		
Class A	—	(43,022,245)
Return of capital		
Class A	—	(217,806)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	17,458,661	51,049,322
Net assets acquired in tax-free reorganization	—	7,576,034
Reinvestment of distributions	—	43,827,394
Cost of shares redeemed	(74,105,054)	(91,817,139)
Net increase (decrease) in net assets from Class A share transactions	(56,646,393)	10,635,611
<b>Class B*</b>		
Proceeds from shares sold	135,924	—
Cost of shares redeemed	(55)	—
Net increase (decrease) in net assets from Class B share transactions	135,869	—
<b>Increase (decrease) in net assets</b>	<b>(173,551,632)</b>	<b>(162,989,378)</b>
Net assets at beginning of period	419,560,868	582,550,246
Net assets at end of period (including undistributed net investment income of \$199,881 at December 31, 2002)	<b>\$ 246,009,236</b>	<b>\$ 419,560,868</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	19,928,329	19,340,010
Shares sold	934,108	2,255,890
Shares issued in tax-free reorganization	—	318,053
Shares issued to shareholders in reinvestment of distributions	—	2,073,659
Shares redeemed	(4,312,667)	(4,059,283)
Net increase (decrease) in Portfolio shares	(3,378,559)	588,319
Shares outstanding at end of period	<b>16,549,770</b>	<b>19,928,329</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	8,814	—
Shares redeemed	(3)	—
Net increase (decrease) in Portfolio shares	8,811	—
Shares outstanding at end of period	<b>8,811</b>	—

\* For the period from July 1, 2002 (commencement of sales Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a</sup>	1998 <sup>a</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 21.05</b>	<b>\$ 30.12</b>	<b>\$ 40.54</b>	<b>\$ 29.57</b>	<b>\$ 30.01</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.01 <sup>b</sup>	.03 <sup>b</sup>	(.01) <sup>b</sup>	(.01) <sup>b</sup>	.07
Net realized and unrealized gain (loss) on investment transactions	(6.20)	(6.75)	(6.81)	10.98	4.59
<b>Total from investment operations</b>	<b>(6.19)</b>	<b>(6.72)</b>	<b>(6.82)</b>	<b>10.97</b>	<b>4.66</b>
<i>Less distributions from:</i>					
Net investment income	—	(.03)	—	—	(.10)
Net realized gains on investment transactions	—	(2.31)	(3.60)	—	(5.00)
Return of capital	—	(.01)	—	—	—
<b>Total distributions</b>	<b>—</b>	<b>(2.35)</b>	<b>(3.60)</b>	<b>—</b>	<b>(5.10)</b>
<b>Net asset value, end of period</b>	<b>\$ 14.86</b>	<b>\$ 21.05</b>	<b>\$ 30.12</b>	<b>\$ 40.54</b>	<b>\$ 29.57</b>
Total Return (%)	(29.41)	(22.34)	(19.06)	37.12	15.10

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	246	420	583	738	629
Ratio of expenses (%)	.64	.63	.65	.66	.66
Ratio of net investment income (loss) (%)	.07	.13	(.03)	(.04)	.28
Portfolio turnover rate (%)	38	73	65	87	109

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> Based on average shares outstanding during the period.

## Class B

2002<sup>a</sup>

### Selected Per Share Data

<b>Net asset value, beginning of period</b>	<b>\$ 16.04</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.06
Net realized and unrealized gain (loss) on investment transactions	(1.27)
<b>Total from investment operations</b>	<b>(1.21)</b>
<b>Net asset value, end of period</b>	<b>\$ 14.83</b>
Total Return (%)	(7.54)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.1
Ratio of expenses (%)	.88*
Ratio of net investment income (loss) (%)	.80*
Portfolio turnover rate (%)	38

<sup>a</sup> For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## Scudder High Income Portfolio

High-yield bonds delivered strong results in the fourth quarter, after struggling in the second and third quarter. Technology, international telecom and wireless telecom issues — areas of the market that had been beaten down in price earlier in the year — led the quarter's rally. In this environment, the portfolio's total return (Class A shares) was -0.30 percent.

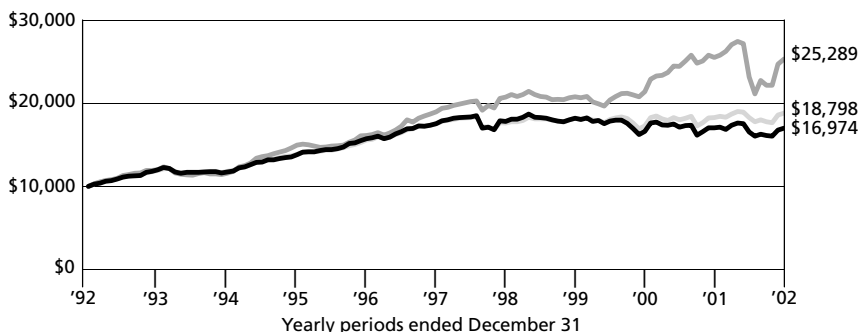
Underweight positions in bonds issued by companies in the airline, automotive transportation, steel and financial sectors aided returns during the quarter. Performance detractors included underweights in those areas of the market that rallied, including broadcasting, technology and international telecom. Since taking over management responsibility in April 2002, and given the ongoing uncertainty in the high-yield market, this investment approach has led management to favor a higher-quality bias within the fund, with a focus on more liquid and stable BB-rated credits. This more conservative positioning helped performance earlier in the year when the high-yield sector was struggling, but it detracted slightly from performance when lower-quality high yield issues rebounded during the fourth quarter.

Management continues to take advantage of relative value opportunities within the single B credit sector and has begun to selectively add to this credit sector in the fund. In addition, there remains a strong focus on individual credit risk of securities held by the fund.

Andrew Cestone  
 Harry Resis, Jr.  
 Co-Managers  
 Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder High Income Portfolio from 12/31/1992 to 12/31/2002

- Scudder High Income Portfolio — Class A
- Salomon Smith Barney Long-Term High Yield Bond Index
- CSFB High Yield Index



The Salomon Smith Barney Long-Term High Yield Bond Index is on a total return basis with all dividends reinvested and is composed of high-yield bonds with a par value of \$50 million or higher and a remaining maturity of ten years or longer rated BB+ or lower by Standard & Poor's Corporation or Ba1 or lower by Moody's Investors Service, Inc. This index is unmanaged. The CSFB High Yield Index (formerly DLJ High Yield Index) is an unmanaged index that is market-weighted, including publicly traded bonds having a rating below BBB by Standard & Poor's and Moody's. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index.

### Average Annual Total Returns<sup>1</sup>

Scudder High Income Portfolio	1-Year	3-Year	5-Year	10-Year
Class A	-0.30%	-2.24%	-0.64%	5.43% (Since 4/6/1982)

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

Effective 10/7/2002 the portfolio had name and investment objective changes: Scudder High Yield Portfolio name was changed to Scudder High Income Portfolio.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## Scudder High Income Portfolio

	Principal Amount (\$)	Value (\$)		Principal Amount (\$)	Value (\$)
<b>Corporate Bonds 75.5%</b>					
<b>Consumer Discretionary 21.9%</b>					
Adelphia Communications Corp.:					
8.125%, 7/15/2003*	390,000	144,300	Hines Horticulture, Inc., Series B, 12.75%, 10/15/2005	1,931,000	2,027,550
7.75%, 1/15/2009*	50,000	18,500	Imperial Home Decor Group, Inc., Series B, 11.0%, 3/15/2008*	1,050,000	105
10.25%, 6/15/2011*	1,670,000	642,950	Insight Communications, Step-up Coupon, 0% to 2/15/2006, 12.25% to 2/15/2011	720,000	396,900
Advantica Restaurant Co., 11.25%, 1/15/2008	404,706	307,577	Interep National Radio Sales, Inc., 10.0%, 7/1/2008	2,050,000	1,599,000
American Achieve Corp., 11.625%, 1/1/2007	890,000	944,513	International Game Technology, 8.375%, 5/15/2009	1,595,000	1,770,450
American Lawyer Media, Inc., Series B, 9.75%, 12/15/2007	1,190,000	833,000	Jacobs Entertainment Co., 11.875%, 2/1/2009	685,000	708,975
Ameristar Casino, Inc., 10.75%, 2/15/2009	1,250,000	1,368,750	K-III Communications Corp., 8.5%, 2/1/2006	85,000	79,581
Avondale Mills, Inc., 10.25%, 5/1/2006	1,590,000	1,478,700	Krystal, Inc., 10.25%, 10/1/2007	760,000	699,200
Boca Resorts, Inc., 9.875%, 4/15/2009	2,840,000	2,953,600	Levi Strauss & Co., 12.25%, 12/15/2012	410,000	401,800
Boyd Gaming Corp., 7.75%, 12/15/2012	435,000	425,756	MGM Mirage, Inc.:		
Buffets, Inc., 11.25%, 7/15/2010	605,000	571,725	8.5%, 9/15/2010	1,210,000	1,337,050
Carrols Corp., 9.5%, 12/1/2008	665,000	578,550	9.75%, 6/1/2007	1,140,000	1,259,700
Charter Communications Holdings LLC:			Mohegan Tribal Gaming Authority, 8.0%, 4/1/2012	625,000	651,563
8.25%, 4/1/2007	800,000	356,000	Mothers Work, Inc., 11.25%, 8/1/2010	530,000	564,450
8.625%, 4/1/2009	80,000	35,600	National Vision, Inc., 12.0%, 3/30/2009	147,522	80,768
Step-up Coupon, 0% to 1/15/2007, 13.5% to 1/15/2011	1,665,000	432,900	Nextmedia Operating, Inc., 10.75%, 7/1/2011	945,000	993,431
Step-up Coupon, 0% to 1/15/2007, 12.125% to 1/15/2012	220,000	51,700	Park Place Entertainment, Inc.:		
Choctaw Resort Development Enterprises, 9.25%, 4/1/2009	1,305,000	1,380,038	8.5%, 11/15/2006	95,000	101,001
Chumash Casino & Resort Enterprise, 9.0%, 7/15/2010	235,000	249,100	9.375%, 2/15/2007	2,015,000	2,151,013
Cinemark USA, Inc., 8.5%, 8/1/2008	2,235,000	2,128,838	PRIMEDIA, Inc.:		
Circus & Eldorado, 10.125%, 3/1/2012	955,000	940,675	7.625%, 4/1/2008	390,000	347,100
Clear Channel Communication, Inc., 8.0%, 11/1/2008	2,015,000	2,198,869	8.875%, 5/15/2011	1,245,000	1,126,725
CSC Holdings, Inc.:			Renaissance Media Group, Step-up Coupon, 0% to 4/15/2003, 10.0% to 4/15/2008	1,565,000	1,236,350
7.875%, 12/15/2007	1,840,000	1,768,700	Rent-A-Center, Inc., 11.0%, 8/15/2008	750,000	807,188
Senior Note, 7.25%, 7/15/2008	410,000	381,813	Restaurant Co., Step-up Coupon, 0% to 5/15/2003, 11.25% to 5/15/2008	1,705,726	1,279,295
Dana Corp., 10.125%, 3/15/2010	300,000	303,750	Rogers Cablesystems Ltd., 10.0%, 3/15/2005	630,000	648,900
DIMON, Inc.:			Scientific Games Corp., 12.5%, 8/15/2010	597,000	671,625
8.875%, 6/1/2006	965,000	977,063	Sealy Mattress Co.:		
Series B, 9.625%, 10/15/2011	1,640,000	1,734,300	9.875%, 12/15/2007	925,000	888,000
EchoStar Communications Corp.:			Series B, 10.875%, 12/15/2007	1,995,000	1,935,150
9.25%, 2/1/2006	1,445,000	1,513,638	Sinclair Broadcasting Group, Inc., 8.75%, 12/15/2007	550,000	574,063
9.375%, 2/1/2009	2,480,000	2,622,600	Six Flags, Inc.:		
Eldorado Resorts LLC, 10.5%, 8/15/2006	1,965,000	1,965,000	9.5%, 2/1/2009	885,000	854,025
Finlay Fine Jewelry Corp., 8.375%, 5/1/2008	1,590,000	1,494,600	Step-up, 0% to 4/1/2003, 10.0% to 4/1/2008	1,345,000	1,301,288
Gap, Inc., 5.625%, 5/1/2003	725,000	726,813	Sonic Automotive, Inc., 11.0%, 8/1/2008	1,895,000	1,932,900
Guitar Center Management, 11.0%, 7/1/2006	2,045,000	2,065,450	Starwood Hotels Resorts, 7.375%, 5/1/2007	170,000	167,025
Hasbro, Inc., 8.5%, 3/15/2006	430,000	438,600	Transwestern Publishing:		
Herbst Gaming, Inc., 10.75%, 9/1/2008	1,193,000	1,246,685	Series F, 9.625%, 11/15/2007	950,000	992,750
Hilton Hotels Corp.:			Series B, 11.875%, 11/15/2008	484,000	511,830
7.625%, 12/1/2012	1,240,000	1,252,216	Turning Stone Casino Entertainment, 9.125%, 12/15/2010	365,000	373,213
8.25%, 2/15/2011	200,000	209,212	USA Interactive, 7.0%, 1/15/2013	415,000	429,120

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

	Principal Amount (\$)	Value (\$)		Principal Amount (\$)	Value (\$)
Venetian Casino Resort LLC, 11.0%, 6/15/2010	1,235,000	1,290,575	Parker & Parsley, 8.25%, 8/15/2007	55,000	58,810
Wheeling Island Gaming, Inc., 10.125%, 12/15/2009	1,045,000	1,076,350	Parker Drilling Co., Series B, 10.125%, 11/15/2009	1,260,000	1,297,800
Wynn Las Vegas Corp., 12.0%, 11/1/2010	85,000	85,850	Pen Holdings, Inc., Series B, 9.875%, 6/15/2008*	335,000	30,150
Yum! Brands, Inc., 7.7%, 7/1/2012	445,000	462,800	Petro Stopping Centers, 10.5%, 2/1/2007	2,995,000	2,785,350
		<b>70,556,740</b>	Pioneer Natural Resources Co.:		
<b>Consumer Staples 4.6%</b>			6.5%, 1/15/2008	970,000	996,538
Agrilink Foods, Inc., 11.875%, 11/1/2008	1,975,000	2,118,188	7.5%, 4/15/2012	400,000	432,514
Del Monte Corp., 8.625%, 12/15/2012	155,000	158,100	Plains All American Pipeline, 7.75%, 10/15/2012	140,000	145,600
Delhaize America, Inc., 8.125%, 4/15/2011	315,000	304,762	Pride International, Inc., 10.0%, 6/1/2009	630,000	680,400
Doane Pet Care Co., 9.75%, 5/15/2007	760,000	596,600	Southwest Gas Corp., 7.625%, 5/15/2012	410,000	441,354
Elizabeth Arden, Inc., Series B, 11.75%, 2/1/2011	1,095,000	1,127,850	Stone Energy Corp.:		
Fleming Companies, Inc.:			8.25%, 12/15/2011	675,000	702,000
9.25%, 6/15/2010	290,000	227,650	8.75%, 9/15/2007	690,000	717,600
9.875%, 5/1/2012	1,390,000	806,200	Tesoro Petroleum Corp., Series B, 9.625%, 11/1/2008	595,000	404,600
10.125%, 4/1/2008	1,795,000	1,543,700	Transocean, Inc., 9.5%, 12/15/2008	370,000	468,005
IMC Global, Inc., 10.875%, 6/1/2008	550,000	596,750	Westar Energy, Inc., 7.875%, 5/1/2007	1,240,000	1,255,500
Jafrá Cosmetics International, Inc., 11.75%, 5/1/2008	1,710,000	1,769,850	Western Resources, Inc., 9.75%, 5/1/2007	470,000	427,700
Michael Foods, Inc., Series B, 11.75%, 4/1/2011	225,000	252,000	Westport Resources Corp., 8.25%, 11/1/2011	1,550,000	1,627,500
Salton, Inc.:				<b>23,303,517</b>	
10.75%, 12/15/2005	240,000	233,100	<b>Financials 2.6%</b>		
12.25%, 4/15/2008	805,000	793,931	Capstar Hotel Co., 8.75%, 8/15/2007	875,000	586,250
Service Corp. International, 7.7%, 4/15/2009	2,505,000	2,342,175	Corrections Corp. of America, 9.875%, 5/1/2009	1,190,000	1,261,400
Stater Brothers Holdings, Inc., 10.75%, 8/15/2006	1,550,000	1,573,250	FRD Acquisition, Series B, 12.5%, 7/15/2004*	210,000	0
Swift & Co., 10.125%, 10/1/2009	140,000	132,300	HMH Properties, Inc., Series B, 7.875%, 8/1/2008	1,040,000	1,008,800
US Can Corp., Series B, 12.375%, 10/1/2010	600,000	258,000	Household Finance Corp.:		
		<b>14,834,406</b>	6.375%, 11/27/2012	680,000	709,874
<b>Energy 7.2%</b>			7.35%, 11/27/2032	400,000	431,169
Avista Corp., 9.75%, 6/1/2008	2,810,000	2,774,875	LaBranche & Co., Inc., 12.0%, 3/2/2007	1,360,000	1,516,400
Chesapeake Energy Corp.:			Meristar Hospitality Corp., 9.0%, 1/15/2008	980,000	862,400
8.125%, 4/1/2011	2,020,000	2,080,600	PCA LLC/PCA Finance Corp., 11.875%, 8/1/2009	470,000	477,050
9.0%, 8/15/2012	300,000	318,000	R.H. Donnelly Finance Corp.:		
Consumers Energy Co.:			6.25%, 9/15/2006	525,000	516,366
6.375%, 2/1/2008	115,000	111,475	8.875%, 12/15/2010	240,000	256,800
Continental Resources, Inc., 10.25%, 8/1/2008	640,000	569,600	10.875%, 12/15/2012	940,000	1,024,600
Edison Mission Energy, 7.73%, 6/15/2009	2,535,000	1,166,100	Xerox Credit Corp., 7.0%, 6/9/2003	395,000	387,100
FirstEnergy Corp., Series B, 6.45%, 11/15/2011	720,000	716,287		<b>8,521,843</b>	
Illinois Power, 7.5%, 6/15/2009	170,000	139,400	<b>Health Care 2.8%</b>		
Key Energy Services, Inc., 14.0%, 1/15/2009	472,000	538,080	Amerisourcebergen Corp., 7.25%, 11/15/2012	260,000	266,500
Nevada Power Co., 10.875%, 10/15/2009	165,000	166,650	HealthSouth Corp.:		
Newpark Resources, Inc., 8.625%, 12/15/2007	640,000	611,200	7.0%, 6/15/2008	2,105,000	1,726,100
Panhandle Eastern Pipe Line:			7.625%, 6/1/2012	2,865,000	2,363,625
7.2%, 8/15/2024	365,000	315,141	IASIS Healthcare Corp., 13.0%, 10/15/2009	210,000	223,650
7.95%, 3/15/2023	895,000	808,322	Insight Health Services, Series B, 9.875%, 11/1/2011	350,000	336,000
			Magellan Health Services, Inc.:		
			9.0%, 2/15/2008	570,000	143,925
			9.375%, 11/15/2007	115,000	90,850

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

	Principal Amount (\$)	Value (\$)		Principal Amount (\$)	Value (\$)
Mariner Post-Acute Network, Inc., Series B, 10.5%, 8/1/2006	1,255,000	1,217,350	Hayes Lemmerz International, Inc.:		
MedQuest, Inc., 11.875%, 8/15/2012	160,000	156,000	11.875%, 6/15/2006*	670,000	375,200
Ndhealth Corp., 10.5%, 12/1/2012	165,000	165,000	11.0%, 7/15/2006*	1,500,000	33,750
Omnicare, Inc., Series B, 8.125%, 3/15/2011	360,000	385,200	Hercules, Inc.:		
Radiologix, Inc., 10.5%, 12/15/2008	1,150,000	897,000	6.6%, 8/1/2027	130,000	127,400
Tenet Healthcare Corp., 6.375%, 12/1/2011	540,000	486,000	11.125%, 11/15/2007	1,404,000	1,565,460
Vanguard Health Systems, Inc., 9.75%, 8/1/2011	485,000	463,175	Hornbeck Offshore Services, Inc., 10.625%, 8/1/2008	305,000	321,775
		<b>8,920,375</b>	ISP Chemco, Inc., Series B, 10.25%, 7/1/2011	1,455,000	1,505,925
<b>Industrials 19.0%</b>			ISP Holdings, Inc., Series B, 10.625%, 12/15/2009	640,000	556,800
Allied Waste North America, Inc.:			K&F Industries, 9.625%, 12/15/2010	580,000	590,150
Series B, 7.625%, 1/1/2006	1,540,000	1,532,300	Kansas City Southern:		
Series B, 8.5%, 12/1/2008	1,835,000	1,844,175	7.5%, 6/15/2009	1,275,000	1,345,125
9.25%, 9/1/2012	300,000	307,500	9.5%, 10/1/2008	660,000	726,825
Series B, 10.0%, 8/1/2009	1,475,000	1,463,938	Kindercare Learning Centers, Inc., 9.5%, 2/15/2009	2,190,000	2,124,300
AutoNation, Inc., 9.0%, 8/1/2008	1,350,000	1,363,500	Knoll, Inc., 10.875%, 3/15/2006	334,000	317,300
Avis Group Holdings, Inc., 11.0%, 5/1/2009	2,935,000	3,213,825	La Petite Academy, Inc., 10.0%, 5/15/2008	1,890,000	980,438
Buckeye Technologies, Inc.:			Louisiana Pacific Corp., 10.875%, 11/15/2008	540,000	580,500
8.25%, 12/15/2005	785,000	710,425	Lyondell Chemical Co., 10.875%, 5/1/2009	80,000	68,400
9.25%, 9/15/2008	650,000	559,000	MDC Holdings, Inc., 7.0%, 6/15/2012	670,000	646,550
Caraustar Industries, Inc., 7.375%, 6/1/2009	355,000	355,810	Metaldyne Corp., 11.0%, 6/15/2012	630,000	516,600
Chukchansi Economic Development Authority, 14.5%, 6/15/2009	355,000	355,000	Millennium America, Inc.:		
Coinmach Corp., 9.0%, 2/1/2010	1,620,000	1,698,975	7.0%, 11/15/2006	2,155,000	2,082,269
Collins & Aikman Products:			7.625%, 11/15/2026	110,000	91,438
10.75%, 12/31/2011	535,000	509,588	9.25%, 6/15/2008	865,000	901,763
11.5%, 4/15/2006	1,070,000	898,800	9.25%, 6/15/2008	1,660,000	1,730,550
CP Ships Ltd., 10.375%, 7/15/2012	700,000	735,000	Motors and Gears, Inc., 10.75%, 11/15/2006	570,000	491,625
Dana Corp., 9.0%, 8/15/2011	1,825,000	1,761,125	Petroleum Helicopters, Inc., Series B, 9.375%, 5/1/2009	255,000	268,069
Day International Group, Inc., 11.125%, 6/1/2005	1,020,000	1,040,400	Phelps Dodge Corp., 8.75%, 6/1/2011	360,000	372,467
DeCrane Aircraft Holdings, Inc., Series B, 12.0%, 9/30/2008	1,170,000	469,463	Plainwell, Inc., Series B, 11.0%, 3/1/2008*	4,445,000	44,450
DR Horton, Inc., 7.5%, 12/1/2007	745,000	730,100	Resolution Performance Products LLC, 13.5%, 11/15/2010	2,125,000	2,241,875
Dyersburg Corp., Series B, 9.75%, 9/1/2007*	1,260,000	126	Samsonite Corp., 10.75%, 6/15/2008	1,540,000	1,247,400
Eagle-Picher Industries, Inc., 9.375%, 3/1/2008	1,155,000	814,275	SPX Corp., 7.5%, 1/1/2013	335,000	339,606
Equistar Chemicals LP:			Standard Pacific Corp., 8.5%, 4/1/2009	385,000	388,850
8.75%, 2/15/2009	3,260,000	2,852,500	Sybron Dental Specialties, 8.125%, 6/15/2012	155,000	156,550
10.125%, 9/1/2008	1,720,000	1,565,200	Terex Corp., 8.875%, 4/1/2008	1,430,000	1,288,788
Ferro Corp., 9.125%, 1/1/2009	365,000	385,271	Texas Petrochemicals Corp., 11.125%, 7/1/2006	295,000	182,900
Fibermark, Inc., 10.75%, 4/15/2011	1,140,000	1,151,400	The Brickman Group Ltd., 11.75%, 12/15/2009	685,000	715,825
Flowserve Corp., 12.25%, 8/15/2010	452,000	492,680	Toll Corp., 8.0%, 5/1/2009	330,000	330,000
Fort James Corp., 6.875%, 9/15/2007	1,030,000	978,500	Travelcenters of America, Inc., 12.75%, 5/1/2009	50,000	53,000
Golden State Petroleum Transportation, 8.04%, 2/1/2019	425,000	379,619	Trico Marine Services, 8.875%, 5/15/2012	885,000	818,625
Goodyear Tire & Rubber Co.:			United Rentals, Inc.:		
6.375%, 3/15/2008	155,000	115,411	Series B, 9.0%, 4/1/2009	770,000	614,075
7.857%, 8/15/2011	1,495,000	1,119,574	9.25%, 1/15/2009	1,135,000	927,863
Grove Holdings LLC, Step-up Coupon, 0% to 5/1/2003, 11.625% to 5/1/2009*	310,000	31	10.75%, 4/15/2008	1,925,000	1,915,375
Grove Investors, Inc., 14.5%, 5/1/2010*	996,745	0			
GS Technologies:					
12.0%, 9/1/2004*	352,022	13,201			
12.25%, 10/1/2005*	1,340,000	67,000			

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

	Principal Amount (\$)	Value (\$)		Principal Amount (\$)	Value (\$)
Xerox Corp.:			Perkinelmer, Inc, 8.875%, 1/15/2013	245,000	241,325
5.5%, 11/15/2003	755,000	736,125	Pliant Corp., 13.0%, 6/1/2010	175,000	160,125
9.75%, 11/15/2009	1,535,000	1,473,600	Republic Technologies International LLC, 13.75%, 7/15/2009*	2,820,000	84,600
		<b>61,279,298</b>	Riverwood International Corp., 10.875%, 4/1/2008	1,645,000	1,653,225
<b>Information Technology 1.6%</b>			Schuler Homes, Inc.:		
Amkor Technology, Inc., 9.25%, 5/1/2006	170,000	145,350	9.375%, 7/15/2009	690,000	703,800
Computer Associates, Inc.:			10.5%, 7/15/2011	1,195,000	1,224,875
Series B, 6.375%, 4/15/2005	1,150,000	1,115,500	Toll Corp.:		
Series B, 6.5%, 4/15/2008	300,000	284,250	7.75%, 9/15/2007	305,000	300,425
Sanmina-Sci Corp., 10.375%, 1/15/2010	960,000	969,600	8.125%, 2/1/2009	100,000	100,500
Seagate Technology Holdings, 8.0%, 5/15/2009	1,095,000	1,133,325			<b>24,574,619</b>
Solectron Corp.:			<b>Telecommunication Services 6.4%</b>		
7.375%, 3/1/2006	370,000	344,100	American Tower Corp., 9.375%, 2/1/2009	1,130,000	881,400
9.625%, 2/15/2009	1,125,000	1,096,875	AT&T Wireless Services, Inc., 8.125%, 5/1/2012	1,770,000	1,778,850
		<b>5,089,000</b>	Avaya, Inc., 11.125%, 4/1/2009	2,080,000	1,882,400
<b>Materials 7.6%</b>			Celcaribe SA, 13.5%, 3/15/2004	1,935,000	1,799,550
Abitibi-Consolidated Finance, 7.875%, 8/1/2009	395,000	419,056	Century Communications Corp.:		
American Plumbing & Mechanical, Inc., 11.625%, 10/15/2008	55,000	15,950	8.75%, 10/1/2007*	50,000	13,000
Berry Plastics Corp., 10.75%, 7/15/2012	325,000	346,125	8.375%, 11/15/2017*	790,000	205,400
Caraustar Industries, Inc., 9.875%, 4/1/2011	150,000	154,500	Crown Castle International Corp.:		
Collins & Aikman Floorcove, Series B, 9.75%, 2/15/2010	340,000	340,000	9.375%, 8/1/2011	490,000	406,700
Dayton Superior Corp., 13.0%, 6/15/2009	690,000	593,400	10.625%, 11/15/2007	1,330,000	1,197,000
Dex Media East LLC:			ICG Holdings, Inc., 13.5%, 9/15/2005*	4,190,000	20,950
9.875%, 11/15/2009	1,285,000	1,374,950	Impsat Corp., 12.375%, 6/15/2008*	1,805,000	54,150
12.125%, 11/15/2012	1,940,000	2,148,550	Level 3 Communications, Inc., 11.0%, 3/15/2008	630,000	406,350
Dimac Corp., 12.5%, 10/1/2008*	1,540,000	15,400	Motorola, Inc., 7.625%, 11/15/2010	265,000	271,294
Foamex LP, 10.75%, 4/1/2009	650,000	455,000	Nextel Communications, Inc.:		
Fonda Group, 9.5%, 3/1/2007	1,870,000	1,014,475	9.375%, 11/15/2009	290,000	262,450
Georgia-Pacific Corp.:			9.5%, 2/1/2011	2,030,000	1,827,000
7.5%, 5/15/2006	1,615,000	1,534,250	Nextlink Communications, Inc.:		
8.125%, 5/15/2011	575,000	546,250	12.5%, 4/15/2006*	630,000	788
8.875%, 5/15/2031	515,000	442,900	Step-up Coupon, 0% to 4/15/2003, 9.45% to 4/15/2008*	920,000	1,150
Debenture, 7.7%, 6/15/2015	1,435,000	1,219,750	Step-up Coupon, 0% to 6/1/2004, 12.25% to 6/1/2009*	2,000,000	2,500
Greif Brothers Corp., 8.875%, 8/1/2012	875,000	927,500	Qwest Capital Funding, Inc., 5.875%, 8/3/2004	265,000	222,600
KB Home, 8.625%, 12/15/2008	525,000	543,375	Qwest Corp.:		
Lennar Corp., 9.95%, 5/1/2010	1,440,000	1,569,600	5.625%, 11/15/2008	3,970,000	3,374,500
Lyondell Chemical Co., 9.5%, 12/15/2008	1,720,000	1,599,600	8.875%, 3/15/2012	280,000	271,600
Metals USA, Inc., 8.625%, 2/15/2008*	970,000	0	Qwest Services Corp.:		
MMI Products, Inc., Series B, 11.25%, 4/15/2007	1,420,000	1,308,175	13.5%, 12/15/2010	1,825,000	1,898,000
Nortek, Inc., 9.125%, 9/1/2007	310,000	317,750	14.0%, 12/15/2014	294,000	314,580
Owens-Brockway Glass Container:			Sinclair Broadcast Group, 8.0%, 3/15/2012	675,000	703,688
8.75%, 11/15/2012	80,000	81,200	Sprint Capital Corp.:		
8.75%, 11/15/2012	405,000	411,075	6.125%, 11/15/2008	1,440,000	1,310,400
8.875%, 2/15/2009	2,015,000	2,075,450	6.375%, 5/1/2009	230,000	209,300
Owens-Illinois, Inc.:			8.375%, 3/15/2012	245,000	243,775
7.5%, 5/15/2010	370,000	340,400	Teligent, Inc., Series B, Step-up Coupon, 0% to 3/1/2003, 11.500% to 3/1/2008*	690,000	69
7.85%, 5/15/2004	315,000	311,063	US West Communication, Inc., 7.25%, 9/15/2025	1,510,000	1,192,900
					<b>20,752,344</b>

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



	Principal Amount (\$)	Value (\$)
<b>Utilities 1.8%</b>		
AES Corp., 9.375%, 9/15/2010	1,050,000	630,000
Calpine Corp.:		
7.75%, 4/15/2009	585,000	245,700
8.5%, 2/15/2011	635,000	276,225
CMS Energy Corp.:		
7.5%, 1/15/2009	475,000	403,750
8.5%, 4/15/2011	2,695,000	2,344,650
8.9%, 7/15/2008	230,000	204,700
Public Service Co. of Colorado, 7.875%, 10/1/2012	865,000	965,594
Southwest Gas Corp., 8.375%, 2/15/2011	85,000	94,584
Southwestern Public Service Co., Series A, 6.2%, 3/1/2009	180,000	172,218
TNP Enterprises, Inc., Series B, 10.25%, 4/1/2010	565,000	531,100
		<b>5,868,521</b>
<b>Total Corporate Bonds (Cost \$274,830,251)</b>		<b>243,700,663</b>

#### Asset Backed 0.7%

Golden Tree High Yield Opportunities LP "D1", Series 1, 13.054%, 10/31/2007 (Cost \$2,500,000)	2,500,000	2,357,250
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#### Foreign Bonds — US\$ Denominated 15.6%

Acetex Corp., 10.875%, 8/1/2009	565,000	598,900
Ainsworth Lumber, 12.5%, 7/15/2007	255,000	265,200
Antenna TV SA, 9.0%, 8/1/2007	75,000	50,250
Bluewater Finance Ltd., 10.25%, 2/15/2012	900,000	882,000
British Sky Broadcasting PLC:		
6.875%, 2/23/2009	1,340,000	1,370,150
8.2%, 7/15/2009	1,420,000	1,533,600
Central European Media Enterprises Ltd., 9.375%, 8/15/2004	965,000	833,519
Comcast UK Cable Partners Ltd., 11.2%, 11/15/2007	2,175,000	1,533,375
Conproca SA de CV, 12.0%, 6/16/2010	520,000	639,600
Corp Durango SA, 13.75%, 7/15/2009	1,285,000	449,750
Disco SA, 9.875%, 5/15/2008	510,000	438,600
Dolphin Telecom PLC, Series B, Step-up Coupon, 0% to 5/15/2004, 14.0% to 5/15/2009*	1,240,000	124
Esprit Telecom Group PLC:		
10.875%, 6/15/2008*	800,000	80
11.5%, 12/15/2007*	1,625,000	163
Euramax International PLC, 11.25%, 10/1/2006	1,625,000	1,677,813
Fage Dairy Industry SA, 9.0%, 2/1/2007	733,000	689,020
Gruma SA de CV, 7.625%, 10/15/2007	305,000	298,900
Grupo Elektra SA de CV, 12.0%, 4/1/2008	510,000	456,450
Grupo Iusacell SA de CV, Series B, 10.0%, 7/15/2004	50,000	26,000
Grupo Transportacion Ferroviaria Mexicana SA de CV:		
10.25%, 6/15/2007	825,000	773,438
12.5%, 6/15/2012	1,630,000	1,646,300

	Principal Amount (\$)	Value (\$)
Hurricane Hydrocarbons Ltd., 12.0%, 8/4/2006	1,590,000	1,613,850
Innova S de R.L., 12.875%, 4/1/2007	1,155,000	1,004,850
Intrawest Corp.:		
10.5%, 2/1/2010	175,000	183,750
10.5%, 2/1/2010	155,000	162,750
Luscar Coal Ltd., 9.75%, 10/15/2011	160,000	171,400
MetroNet Communications Corp.:		
12.0%, 8/15/2007*	645,000	103,200
10.75%, 11/1/2007*	1,070,000	168,525
Millicom International Cellular SA, 13.5%, 6/1/2006	2,380,000	1,166,200
Ocean Rig Norway AS, 10.25%, 6/1/2008	775,000	697,500
Pemex Project Funding Master Trust, 9.125%, 10/13/2010	525,000	601,125
Petroleum Geo-Services ASA, 7.125%, 3/30/2028	1,100,000	286,000
PTC International Finance BV, 10.75%, 7/1/2007	990,000	1,029,600
PTC International Finance II SA, 11.25%, 12/1/2009	405,000	429,300
Republic of Argentina:		
11.75%, 6/15/2015*	300,000	68,700
Series 2031, 12.0%, 6/19/2031*	376,300	75,260
Republic of Turkey, 11.5%, 1/23/2012	1,030,000	1,060,900
Royal Caribbean Cruises Ltd.:		
6.75%, 3/15/2008	280,000	245,000
8.75%, 2/2/2011	2,240,000	2,083,200
Russian Federation, 5.0%, 3/31/2030	570,000	452,438
Stagecoach Holdings PLC, 8.625%, 11/15/2009	2,850,000	2,747,400
Stena AB:		
8.75%, 6/15/2007	665,000	665,831
9.625%, 12/1/2012	1,685,000	1,739,763
Stone Container Corp., 11.5%, 8/15/2006	1,535,000	1,627,100
TeleWest Communications PLC, 11.0%, 10/1/2007*	2,895,000	521,100
Telus Corp., 8.0%, 6/1/2011	1,025,000	984,000
TFM SA de CV, 11.75%, 6/15/2009	1,535,000	1,504,300
Tyco International Group SA:		
5.8%, 8/1/2006	4,455,000	4,209,975
6.125%, 11/1/2008	4,020,000	3,758,700
6.125%, 1/15/2009	3,020,000	2,823,700
6.375%, 10/15/2011	1,515,000	1,416,525
6.75%, 2/15/2011	165,000	155,925
Vicap SA, 11.375%, 5/15/2007	2,185,000	1,966,500
Yell Finance BV, Step-up Coupon, 0% to 8/1/2006, 13.5% to 8/1/2011	590,000	415,950
<b>Total Foreign Bonds — US\$ Denominated</b> (Cost \$57,571,013)		<b>50,303,549</b>

#### Foreign Bonds — Non US\$ Denominated 0.6%

Antenna TV SA, 9.75%, 7/1/2008	280,000	191,082
Ispat Europe Group SA, 11.875%, 2/1/2011	280,000	258,695
Republic of Argentina, 10.25%, 2/6/2003*	2,560,000	274,844
Stagecoach Holdings PLC, 6.0%, 11/24/2004	595,000	590,332

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

	Principal Amount (\$)	Value (\$)
Tyco International Group SA, 6.125%, 4/4/2007	690,000	651,118
<b>Total Foreign Bonds — Non US\$ Denominated</b> (Cost \$1,804,648)		<b>1,966,071</b>

#### Other 0.0%

SpinCycle, Inc.*	39,810	19,905
SpinCycle, Inc. "F"*	279	15
<b>Total Other</b> (Cost \$103,208)		<b>19,920</b>

#### Common Stocks 0.2%

AMF Bowling Worldwide, Inc.	6,537	122,634
Capital Pacific Holdings, Inc.	3,634	11,811
FRD Acquisition Co.	3,870	15,325
ICG Communications, Inc.*	4,851	49
Mariner Health Care, Inc.	2,546	16,040
Metal Management, Inc.*	89,382	353,059
Metals USA, Inc.	46,560	162,960
MEDIQ, Inc.	736	3,196
National Vision, Inc.*	17,915	6,449
The Manitowoc Co., Inc.	2,270	57,885
<b>Total Common Stocks</b> (Cost \$7,454,421)		<b>749,408</b>

#### Warrants 0.1%

American Banknote Corp.*	1,200	0
AMF Bowling Worldwide, Inc.*	15,030	56,363
AMF Bowling Worldwide, Inc.*	15,384	109,611
Communication Cellular SA*	2,200	22
DeCrane Aircraft Holdings, Inc.*	1,350	14
Destia Communications, Inc.*	1,260	0
Empire Gas Corp.*	2,070	0
KMC Telecom Holdings, Inc.*	1,950	0
Mariner Health Care, Inc.*	2,404	138
McLeodUSA, Inc.*	22,071	7,725
Republic Technologies International LLC*	2,820	28
Stations Holding Co., Inc.*	5,000	0
Waxman Industries, Inc.*	52,274	523
<b>Total Warrants</b> (Cost \$5,383,174)		<b>174,424</b>

#### Notes to Scudder High Income Portfolio of Investments

\* Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or interest or has filed for bankruptcy.

(a) The cost for federal income tax purposes was \$375,683,362. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$52,960,018. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$10,425,078 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$63,385,096.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

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

	Principal Amount (\$)	Value (\$)
<b>Preferred Stocks 0.5%</b>		
Sinclair Capital	13,000	1,378,000
TNP Enterprises, Inc.	1,200	78,000
<b>Total Preferred Stocks</b> (Cost \$1,389,150)		<b>1,456,000</b>

#### Convertible Preferred Stocks 0.0%

McLeodUSA, Inc.,	9,960	40,936
World Access, Inc. "D"	933	0
<b>Total Convertible Preferred Stocks</b> (Cost \$2,291,175)		<b>40,936</b>

#### Convertible Bonds 0.9%

Avaya, Inc., Zero Coupon, 10/31/2021	1,515,000	609,788
DIMON, Inc., 6.25%, 3/31/2007	905,000	814,500
Solectron Corp., Zero Coupon, 11/20/2020	655,000	334,050
Tyco International Ltd., Zero Coupon, 11/17/2020	1,425,000	1,036,688
<b>Total Convertible Bonds</b> (Cost \$2,586,508)		<b>2,795,026</b>

#### US Treasury Obligations 3.2%

US Treasury Bond:		
5.375%, 2/15/2031	360,000	392,456
10.75%, 8/15/2005	2,660,000	3,260,681
US Treasury Note, 3.25%, 8/15/2007	6,400,000	6,558,502
<b>Total US Treasury Obligations</b> (Cost \$10,076,270)		<b>10,211,639</b>

	Shares	Value (\$)
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#### Cash Equivalents 2.8%

Scudder Cash Management QP Trust, 1.4% (b) (Cost \$8,948,458)	8,948,458	8,948,458
<b>Total Investment Portfolio — 100.0%</b> (Cost \$374,938,276) (a)		<b>322,723,344</b>

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$374,938,276)	\$ 322,723,344
Receivable for investments sold	1,541,948
Interest receivable	7,129,677
Receivable for Portfolio shares sold	14,184
<b>Total assets</b>	<b>331,409,153</b>

### Liabilities

Payable for investments purchased	568,317
Payable for Portfolio shares redeemed	400,432
Unrealized depreciation on forward foreign currency exchange contracts	116,612
Accrued management fee	174,770
Other accrued expenses and payables	91,101
<b>Total liabilities</b>	<b>1,351,232</b>
<b>Net assets, at value</b>	<b>\$ 330,057,921</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	29,929,829
Net unrealized appreciation (depreciation) on:	
Investments	(52,214,932)
Foreign currency related transactions	(113,530)
Accumulated net realized gain (loss)	(121,440,396)
Paid-in capital	473,896,950
<b>Net assets, at value</b>	<b>\$ 330,057,921</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$329,049,551 ÷ 44,487,776 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.40</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$1,008,370 ÷ 136,396 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.39</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends	\$ 224,410
Interest (net of foreign taxes withheld of \$1,352)	33,886,218
<b>Total Income</b>	<b>34,110,628</b>
Expenses:	
Management fee	1,907,361
Custodian fees	18,029
Distribution service fees	205
Auditing	48,159
Trustees' fees and expenses	5,613
Reports to shareholders	119,622
Other	16,202
<b>Total expenses, before expense reductions</b>	<b>2,115,191</b>
Expense reductions	(1,411)
<b>Total expenses, after expense reductions</b>	<b>2,113,780</b>
<b>Net investment income</b>	<b>31,996,848</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(60,357,263)
Futures	(1,006,696)
Foreign currency related transactions	7,329
	(61,356,630)
Net unrealized appreciation (depreciation) during the period on:	
Investments	30,525,756
Futures	325,060
Foreign currency related transactions	(113,530)
	30,737,286
<b>Net gain (loss) on investment transactions</b>	<b>(30,619,344)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 1,377,504</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 31,996,848	\$ 29,970,880
Net realized gain (loss) on investment transactions	(61,356,630)	(26,134,600)
Net unrealized appreciation (depreciation) on investment transactions during the period	30,737,286	5,839,472
Net increase (decrease) in net assets resulting from operations	1,377,504	9,675,752
Distributions to shareholders from:		
Net investment income		
Class A	(31,372,534)	(37,937,710)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	148,152,496	150,832,821
Reinvestment of distributions	31,369,433	37,937,710
Cost of shares redeemed	(155,069,342)	(134,904,420)
Net increase (decrease) in net assets from Class A share transactions	24,452,587	53,866,111
<b>Class B</b>		
Proceeds from shares sold	998,401	—
Cost of shares redeemed	(8,370)	—
Net increase (decrease) in net assets from Class B share transactions	990,031	—
<b>Increase (decrease) in net assets</b>	<b>(4,552,412)</b>	<b>25,604,153</b>
Net assets at beginning of period	334,610,333	309,006,180
Net assets at end of period (including undistributed net investment income of \$29,929,829 and \$29,298,186, respectively)	<b>\$ 330,057,921</b>	<b>\$ 334,610,333</b>
<b>Other Information</b>		
<b>Class A</b>		
Shares outstanding at beginning of period	41,133,893	33,728,812
Shares sold	19,652,874	18,119,336
Shares issued to shareholders in reinvestment of distributions	4,154,891	4,563,112
Shares redeemed	(20,453,882)	(15,277,367)
Net increase (decrease) in Portfolio shares	3,353,883	7,405,081
Shares outstanding at end of period	<b>44,487,776</b>	<b>41,133,893</b>
<b>Class B</b>		
Shares outstanding at beginning of period	—	—
Shares sold	137,574	—
Shares redeemed	(1,178)	—
Net increase (decrease) in Portfolio shares	136,396	—
Shares outstanding at end of period	<b>136,396</b>	—

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

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001 <sup>a</sup>	2000 <sup>b</sup>	1999 <sup>b</sup>	1998 <sup>b</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.13	\$ 9.16	\$ 11.46	\$ 12.27	\$ 12.96
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.75 <sup>c</sup>	.84 <sup>c</sup>	1.14 <sup>c</sup>	1.22 <sup>c</sup>	1.06
Net realized and unrealized gain (loss) on investment transactions	(.74)	(.59)	(2.04)	(.93)	(.85)
<b>Total from investment operations</b>	.01	.25	(.90)	.29	.21
<i>Less distributions from:</i>					
Net investment income	(.74)	(1.28)	(1.40)	(1.10)	(.90)
<b>Total distributions</b>	(.74)	(1.28)	(1.40)	(1.10)	(.90)
<b>Net asset value, end of period</b>	<b>\$ 7.40</b>	<b>\$ 8.13</b>	<b>\$ 9.16</b>	<b>\$ 11.46</b>	<b>\$ 12.27</b>
Total Return (%)	(.30)	2.63	(8.68)	2.15	1.45

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	329	335	309	396	442
Ratio of expenses (%)	.66	.70	.68	.67	.65
Ratio of net investment income (loss) (%)	10.07	9.89	11.23	10.40	9.36
Portfolio turnover rate (%)	138	77	54	42	74

<sup>a</sup> As required, effective January 1, 2001, the Portfolio has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. The effect of this change for the year ended December 31, 2001 was to decrease net investment income per share by \$.08, increase net realized and unrealized gains and losses per share by \$.08 and decrease the ratio of net investment income to average net assets from 10.74% to 9.89%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.

<sup>b</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly (see Notes to Financial Statements).

<sup>c</sup> Based on average shares outstanding during the period.

## Class B

2002<sup>a</sup>

### Selected Per Share Data

Net asset value, beginning of period	\$ 7.21
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.31
Net realized and unrealized gain (loss) on investment transactions	(.13)
<b>Total from investment operations</b>	.18
<b>Net asset value, end of period</b>	<b>\$ 7.39</b>
Total Return (%)	2.50 <sup>**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	1
Ratio of expenses (%)	.92 <sup>*</sup>
Ratio of net investment income (loss) (%)	8.78 <sup>*</sup>
Portfolio turnover rate (%)	138

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

<sup>\*</sup> Annualized

<sup>\*\*</sup> Not annualized

## Scudder International Select Equity Portfolio

Global equities fell in 2002 for the third consecutive year — the first time this had occurred since the Great Depression. Even so, the year started off and ended relatively well; a positive fourth-quarter market resulted from better-than-expected corporate news as third-quarter earnings surpassed expectations. Throughout this difficult year, monetary policy remained resolutely supportive, and we expect it to continue to be accommodative into 2003. The Eurozone, in particular, has room to cut interest rates further. As inflation has fallen ever lower, the specter of deflation has begun to haunt equity markets with concerns that Germany may become the “next Japan.” Japan itself continues to be an area of concern and uncertainty. It appears that the economy has already begun to falter and that exports peaked in the July–September quarter. We remain circumspect toward our Japanese investments, and much of our exposure is concentrated in companies that are competitive on a global basis.

Against this backdrop, Scudder International Select Equity Portfolio (Class A shares) declined 13.48 percent. This sturdiness owes primarily to the portfolio’s overweight in the consumer staples sector, the only sector that produced a positive return for the annual period. Other contributors to performance fall within the energy sector, such as Eni and Total Fina Elf. Vodafone also helped to minimize the damage. Detractors from performance spanned a wide range of sectors and included Nintendo.

Alex Tedder, Lead Portfolio Manager

Clare Brody

Marc Slendebroek

Stuart Kirk

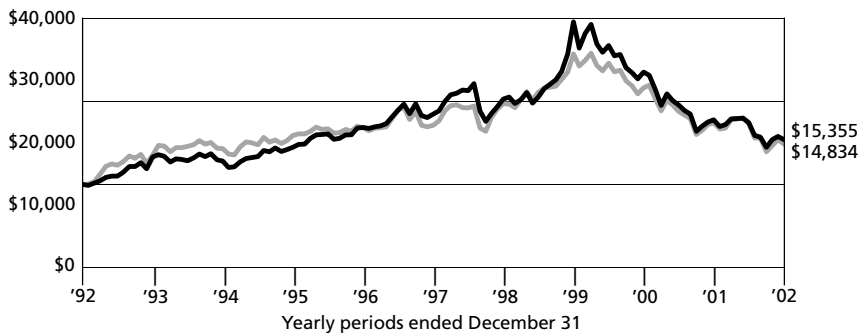
Co-Managers

Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder International Select Equity Portfolio from 12/31/1992 to 12/31/2002

#### ■ Scudder International Select Equity Portfolio — Class A

#### ■ MSCI EAFE + EMF Index



The MSCI EAFE + EMF Index (Morgan Stanley Capital International Europe, Australasia, Far East and Emerging Markets Free Index) is an unmanaged index generally accepted as a benchmark for major overseas markets plus emerging markets. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index.

### Average Annual Total Returns<sup>1</sup>

Scudder International Select Equity Portfolio	1-Year	3-Year	5-Year	10-Year
Class A	-13.48%	-19.59%	-3.58%	4.38% (Since 1/6/1992)

\* The Portfolio commenced operations on January 6, 1992. Index returns begin December 31, 1991.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio’s management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## Scudder International Select Equity Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 97.6%</b>					
<b>Australia 2.1%</b>					
Telstra Corp., Ltd.	1,002,600	2,479,337			
<b>Denmark 1.9%</b>					
Group 4 Falck AS*	109,300	2,310,537			
<b>Finland 1.3%</b>					
Nokia Oyj	99,400	1,581,054			
<b>France 11.2%</b>					
BNP Paribas SA*	82,731	3,372,745			
Schneider Electric SA	57,294	2,712,296			
Total Fina Elf SA	32,928	4,705,126			
Vinci SA	44,322	2,498,857			
		<b>13,289,024</b>			
<b>Germany 2.3%</b>					
Deutsche Boerse AG	67,374	2,687,966			
<b>Hong Kong 4.0%</b>					
Hong Kong Electric Holdings Ltd.	712,500	2,695,230			
Swire Pacific Ltd. "A"	549,300	2,099,011			
		<b>4,794,241</b>			
<b>Ireland 2.1%</b>					
CRH PLC	197,900	2,441,358			
<b>Italy 3.4%</b>					
Eni SpA	258,260	4,107,878			
<b>Japan 22.4%</b>					
Canon, Inc.	72,000	2,710,460			
Daito Trust Construction Co., Ltd.	121,000	2,674,962			
Kao Corp.	107,000	2,347,440			
Mitsubishi Corp.	450,000	2,747,600			
Nintendo Co., Ltd.	23,200	2,166,818			
Nomura Holdings, Inc.	265,000	2,977,177			
Sony Corp.	82,000	3,425,299			
Takeda Chemical Industries Ltd.	80,000	3,341,755			
Toyota Motor Corp.	161,300	4,333,392			
		<b>26,724,903</b>			
<b>Netherlands 6.2%</b>					
ASML Holding NV*	237,009	1,980,733			
Reed Elsevier NV	216,800	2,651,752			
TPG NV	167,200	2,712,143			
		<b>7,344,628</b>			
<b>Switzerland 12.1%</b>					
Nestle SA (Registered)	20,756	4,402,105			
Novartis AG (Registered)	127,027	4,638,807			
Swiss Re (Registered)	43,059	2,826,964			
UBS AG (Registered)*	52,000	2,529,425			
					<b>14,397,301</b>
<b>United Kingdom 28.6%</b>					
AstraZeneca PLC	104,651	3,743,226			
BAA PLC	297,135	2,412,871			
British Sky Broadcasting Group PLC*	262,386	2,701,415			
GlaxoSmithKline PLC	275,167	5,284,724			
Man (ED&F) Group PLC	178,800	2,555,294			
National Grid Transco PLC	430,400	3,165,649			
P & O Princess Cruises PLC	335,236	2,327,972			
Royal Bank of Scotland Group PLC	130,746	3,134,592			
Tesco PLC	1,060,467	3,314,734			
Vodafone Group PLC	2,969,721	5,418,806			
					<b>34,059,283</b>
<b>Total Common Stocks (Cost \$121,052,334)</b>					<b>116,217,510</b>
<b>Preferred Stocks 2.0%</b>					
<b>Germany</b>					
Henkel KGaA (Cost \$2,577,806)	38,110	2,412,704			
<b>Cash Equivalent 0.4%</b>					
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$454,762)	454,762	454,762			
<b>Total Investment Portfolio — 100.0%</b> (Cost \$124,084,902) (a)					<b>119,084,976</b>

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

At December 31, 2002, the Scudder International Select Equity Portfolio had the following industry diversification:

Industry	Value	Percent
Financial	\$ 22,183,174	18.6%
Industrials	15,394,304	12.9%
Consumer Staples	12,476,983	10.5%
Telecommunication Services	7,898,143	6.6%
Information Technology	6,272,247	5.3%
Consumer Discretionary	20,281,610	17.0%
Energy	8,813,004	7.4%
Utilities	5,860,879	4.9%
Healthcare	17,008,512	14.3%
Materials	2,441,358	2.1%
<b>Total Common and Preferred Stocks</b>	<b>118,630,214</b>	<b>99.6%</b>
Cash Equivalents	454,762	.4%
<b>Total Investment Portfolio</b>	<b>\$ 119,084,976</b>	<b>100.0%</b>

#### Notes to Scudder International Select Equity Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$125,725,626. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$6,640,650. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$3,245,843 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$9,886,493.
- (b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.



# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$124,084,902)	\$ 119,084,976
Cash	25
Foreign currency, at value (cost \$721,179)	725,727
Receivable for investments sold	292,573
Dividends receivable	180,806
Interest receivable	386
Receivable for Fund shares sold	11,732
Foreign taxes recoverable	374,134
<b>Total assets</b>	<b>120,670,359</b>

### Liabilities

Payable for investments purchased	340,762
Payable for Portfolio shares redeemed	204,169
Accrued management fee	80,217
Other accrued expenses and payables	40,284
<b>Total liabilities</b>	<b>665,432</b>
<b>Net assets, at value</b>	<b>\$ 120,004,927</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	1,448,616
Net unrealized appreciation (depreciation) on:	
Investments	(4,999,926)
Foreign currency related transactions	50,902
Accumulated net realized gain (loss)	(57,871,696)
Paid-in capital	181,377,031
<b>Net assets, at value</b>	<b>\$ 120,004,927</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$119,620,431 ÷ 15,029,877 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.96</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$384,496 ÷ 48,435 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.94</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$267,043)	\$ 2,508,155
Interest	61,414
<b>Total Income</b>	<b>2,569,569</b>
Expenses:	
Management fee	835,181
Custodian fees	83,420
Distribution service fees	90
Auditing	20,903
Legal	2,454
Trustees' fees and expenses	2,212
Reports to shareholders	669
Other	9,627
<b>Total expenses</b>	<b>954,556</b>
<b>Net investment income (loss)</b>	<b>1,615,013</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(19,035,830)
Foreign currency related transactions	(61,910)
	(19,097,740)
Net unrealized appreciation (depreciation) during the period on:	
Investments	2,330,896
Foreign currency related transactions	94,400
	2,425,296
<b>Net gain (loss) on investment transactions</b>	<b>(16,672,444)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (15,057,431)</b>

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 1,615,013	\$ 637,808
Net realized gain (loss) on investment transactions	(19,097,740)	(26,266,426)
Net unrealized appreciation (depreciation) on investment transactions during the period	2,425,296	(13,923,323)
Net increase (decrease) in net assets resulting from operations	(15,057,431)	(39,551,941)
Distributions to shareholders from:		
Net investment income		
Class A	(514,449)	(1,173,442)
Net realized gains		
Class A	—	(23,234,143)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	56,382,103	409,942,834
Reinvestment of distributions	514,449	24,407,585
Cost of shares redeemed	(70,184,555)	(428,542,046)
Net assets acquired in tax-free reorganization	27,341,143	—
Net increase (decrease) in net assets from Class A share transactions	14,053,140	5,808,373
<b>Class B*</b>		
Proceeds from shares sold	385,924	—
Cost of shares redeemed	(288)	—
Net increase (decrease) in net assets from Class B share transactions	385,636	—
<b>Increase (decrease) in net assets</b>	<b>(1,133,104)</b>	<b>(58,151,153)</b>
Net assets at beginning of period	121,138,031	179,289,184
Net assets at end of period (including undistributed net investment income of \$1,448,616 and \$409,963, respectively)	<b>\$ 120,004,927</b>	<b>\$ 121,138,031</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	13,109,975	12,174,799
Shares sold	6,521,261	38,411,201
Shares issued to shareholders in reinvestment of distributions	55,496	2,398,827
Shares redeemed	(8,099,173)	(39,874,852)
Shares issued in tax-free reorganization	3,442,318	—
Net increase (decrease) in Portfolio shares	1,919,902	935,176
Shares outstanding at end of period	<b>15,029,877</b>	<b>13,109,975</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	48,471	—
Shares redeemed	(36)	—
Net increase (decrease) in Portfolio shares	48,435	—
Shares outstanding at end of period	<b>48,435</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a</sup>	1998 <sup>a</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 9.24</b>	<b>\$ 14.73</b>	<b>\$ 21.45</b>	<b>\$ 17.00</b>	<b>\$ 16.15</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.12 <sup>b</sup>	.05 <sup>b</sup>	.08 <sup>b</sup>	.07 <sup>b</sup>	.17
Net realized and unrealized gain (loss) on investment transactions	(1.36)	(3.46)	(3.90)	6.73	1.48
<b>Total from investment operations</b>	<b>(1.24)</b>	<b>(3.41)</b>	<b>(3.82)</b>	<b>6.80</b>	<b>1.65</b>
<i>Less distributions from:</i>					
Net investment income	(.04)	(.10)	—	(.20)	(.20)
Net realized gains on investment transactions	—	(1.98)	(2.90)	(2.15)	(.60)
<b>Total distributions</b>	<b>(.04)</b>	<b>(2.08)</b>	<b>(2.90)</b>	<b>(2.35)</b>	<b>(.80)</b>
<b>Net asset value, end of period</b>	<b>\$ 7.96</b>	<b>\$ 9.24</b>	<b>\$ 14.73</b>	<b>\$ 21.45</b>	<b>\$ 17.00</b>
Total Return (%)	(13.48)	(24.43)	(20.49)	45.71	10.02

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	120	121	179	252	213
Ratio of expenses (%)	.85	.92	.84	.94	.93
Ratio of net investment income (loss) (%)	1.46	.44	.47	.40	.96
Portfolio turnover rate (%)	190	145	87	136	90

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> Based on average shares outstanding during the period.

## Class B

2002<sup>a</sup>

### Selected Per Share Data

<b>Net asset value, beginning of period</b>	<b>\$ 8.98</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.02
Net realized and unrealized gain (loss) on investment transactions	(1.06)
<b>Total from investment operations</b>	<b>(1.04)</b>
<b>Net asset value, end of period</b>	<b>\$ 7.94</b>
Total Return (%)	(11.58)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.4
Ratio of expenses (%)	1.11*
Ratio of net investment income (loss) (%)	.54*
Portfolio turnover rate (%)	190

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## Scudder Investment Grade Bond Portfolio

Overall, 2002 was another strong year for bonds. In the midst of corporate accounting inquiries, risks of war with Iraq and the possibility of future terrorist attacks, investors sought out higher-quality bonds, such as US Treasury bonds. However, in the fourth quarter, investors became slightly less risk adverse and began to move into corporate and high-yield issues.

In this environment, the portfolio's total return (Class A shares) was 8.01 percent. While much of our selection of corporate bonds aided performance results in the fourth quarter, returns were held back by an overweight in bonds issued by manufactured housing companies, particularly in the fourth quarter. The portfolio's overweight in structured mortgage-backed securities also aided results.

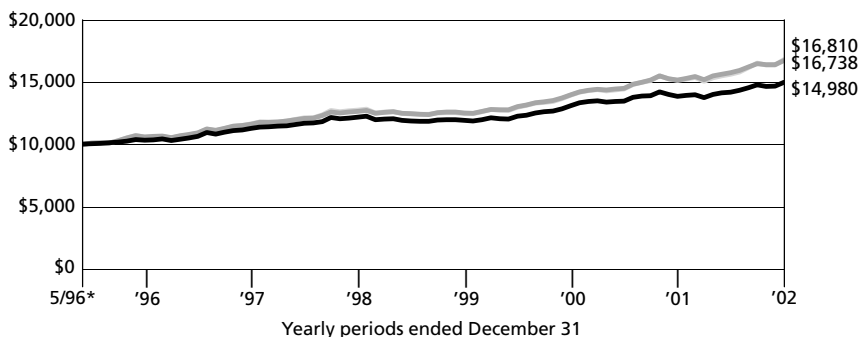
During the quarter, we added bonds, which we believed to have strong fundamentals, in telecom services and cable — both areas that were badly beaten earlier in the year. Although we believe the recent investor shift to corporate bonds may have come about a bit too quickly, we feel it is likely that the worst may have passed in the sector.

David Baldt  
 Gary Bartlett  
 Thomas Flaherty  
 Daniel Taylor  
 Co-Managers  
 Deutsche Investment Management Americas Inc.

Christopher Gagnier  
 Warren Davis  
 Andrew Cestone

### Growth of an Assumed \$10,000 Investment in Scudder Investment Grade Bond Portfolio from 5/1/1996 to 12/31/2002

- Scudder Investment Grade Bond Portfolio — Class A
- Lehman Brothers Aggregate Bond Index
- Lehman Brothers Government/Corporate Bond Index



The Lehman Brothers Aggregate Bond Index is an unmanaged market value-weighted measure of treasury issues, agency issues, corporate and issues and mortgage securities. The Lehman Brothers Government/Corporate Bond Index is an unmanaged index composed of intermediate and long-term government and investment grade corporate debt securities. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the Lehman Brothers Aggregate Bond Index, which better reflects the Portfolio's investment style, will be shown instead of the Lehman Brothers Government/Corporate Bond Index.

### Average Annual Total Returns<sup>1</sup>

Scudder Investment Grade Bond Portfolio	1-Year	3-Year	5-Year	Life of Portfolio
Class A	8.01%	7.86%	5.81%	6.25% (Since 5/1/1996)*

\* The Portfolio commenced operations on May 1, 1996. Index returns begins April 30, 1996.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## Scudder Investment Grade Bond Portfolio

	Principal Amount (\$)	Value (\$)		Principal Amount (\$)	Value (\$)
<b>Corporate Bonds 25.9%</b>					
<b>Consumer Discretionary 1.8%</b>					
American Achieve Corp., 11.625%, 1/1/2007	50,000	53,063	YUM! Brands, Inc., 7.7%, 7/1/2012	50,000	52,000
Avondale Mills, Inc., 10.25%, 5/1/2006	50,000	46,500			4,021,521
Boca Resorts, Inc., 9.875%, 4/15/2009	85,000	88,400	<b>Consumer Staples 0.2%</b>		
Choctaw Resort Development Enterprises, 9.25%, 4/1/2009	55,000	58,163	Agrilink Foods, Inc., 11.875%, 11/1/2008	70,000	75,075
Chumash Casino & Resort Enterprise, 9.0%, 7/15/2010	55,000	58,300	Elizabeth Arden, Inc., Series B, 11.75%, 2/1/2011	50,000	51,500
Circus & Eldorado, 10.125%, 3/1/2012	50,000	49,250	Fleming Companies, Inc., 10.125%, 4/1/2008	75,000	64,500
Clear Channel Communication, Inc., 8.0%, 11/1/2008	55,000	60,019	IMC Global, Inc., 10.875%, 6/1/2008	50,000	54,250
Comcast Cable Communications: 6.2%, 11/15/2008	570,000	590,166	Jafra Cosmetics International, Inc., 11.75%, 5/1/2008	50,000	51,750
6.375%, 1/30/2006	375,000	392,359	Service Corp. International, 7.7%, 4/15/2009	85,000	79,475
6.875%, 6/15/2009	620,000	659,614	Stater Brothers Holdings, Inc., 10.75%, 8/15/2006	55,000	55,825
CSC Holdings, Inc., 7.875%, 12/15/2007	75,000	72,094			<b>432,375</b>
Dana Corp., 10.125%, 3/15/2010	50,000	50,625	<b>Energy 1.9%</b>		
DIMON, Inc., Series B, 9.625%, 10/15/2011	115,000	121,613	Avista Corp.:		
EchoStar Communications Corp.:			7.75%, 1/1/2007	50,000	51,521
9.25%, 2/1/2006	75,000	78,563	9.75%, 6/1/2008	115,000	113,563
9.375%, 2/1/2009	75,000	79,313	Chesapeake Energy Corp., 8.125%, 4/1/2011	50,000	51,500
Eldorado Resorts LLC, 10.5%, 8/15/2006	50,000	50,000	Consumers Energy Co., 6.375%, 2/1/2008	50,000	48,468
Guitar Center Management, 11.0%, 7/1/2006	65,000	65,650	Devon Energy Corp., 7.95%, 4/15/2032	1,045,000	1,256,307
Herbst Gaming, Inc., 10.75%, 9/1/2008	50,000	52,250	FirstEnergy Corp., Series B, 6.45%, 11/15/2011	50,000	49,742
Hilton Hotels Corp.:			Panhandle Eastern Pipe Line, 7.95%, 3/15/2023	65,000	58,705
7.625%, 12/1/2012	50,000	50,493	Parker Drilling Co., Series B, 10.125%, 11/15/2009	50,000	51,500
8.25%, 2/15/2011	115,000	120,297	Pedernales Electric Coop, Series 02-A, 6.202%, 11/15/2032	1,715,000	1,757,755
Hines Horticulture, Inc., Series B, 12.75%, 10/15/2005	50,000	52,500	Pioneer Natural Resources Co., 6.5%, 1/15/2008	400,000	410,944
International Game Technology, 8.375%, 5/15/2009	70,000	77,700	Pride International, Inc., 10.0%, 6/1/2009	50,000	54,000
MGM Mirage, Inc., 9.75%, 6/1/2007	60,000	66,300	Stone Energy Corp., 8.75%, 9/15/2007	50,000	52,000
News America Holdings, Inc., 9.25%, 2/1/2013	225,000	271,298	Westar Energy, Inc., 7.875%, 5/1/2007	75,000	75,938
Park Place Entertainment, Inc.:			Westport Resources Corp., 8.25%, 11/1/2011	50,000	52,500
8.5%, 11/15/2006	200,000	212,634			<b>4,084,443</b>
9.375%, 2/15/2007	100,000	106,750	<b>Financials 10.6%</b>		
Primedia, Inc., 8.875%, 5/15/2011	50,000	45,250	Citigroup, Inc., 6.875%, 2/15/2098	1,335,000	1,451,798
Sinclair Broadcast Group, Inc., 8.75%, 12/15/2011	75,000	80,719	Corrections Corp. of America, 9.875%, 5/1/2009	50,000	53,000
Six Flags, Inc., Step-up Coupon 0.0% to 4/1/2003, 10.0% to 4/1/2008	60,000	58,050	Enterprise Rent-A-Car USA Finance Co., 7.35%, 6/15/2008	1,250,000	1,407,460
Sonic Automotive, Inc., 11.0%, 8/1/2008	70,000	71,400	ERP Operating LP:		
Transwestern Publishing: Series F, 9.625%, 11/15/2007	50,000	52,250	6.63%, 4/13/2005	1,515,000	1,610,971
Series B, 11.875%, 11/15/2008	25,000	26,438	7.1%, 6/23/2004	1,865,000	1,972,894
Wheeling Island Gaming, Inc., 10.125%, 12/15/2009	50,000	51,500	Ford Motor Credit Co.:		
			6.5%, 1/25/2007	470,000	464,228
			6.875%, 2/1/2006	1,875,000	1,878,285
			7.5%, 3/15/2005	125,000	127,533

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

	Principal Amount (\$)	Value (\$)		Principal Amount (\$)	Value (\$)
General Electric Capital Corp., 5.45%, 1/15/2013	455,000	472,625	Goodyear Tire & Rubber Co., 7.857%, 8/15/2011	75,000	56,166
General Motors Acceptance Corp.: 5.25%, 5/16/2005	1,205,000	1,209,196	Hercules, Inc., 11.125%, 11/15/2007	60,000	66,900
8.0%, 11/1/2031	1,150,000	1,156,262	International Paper Co., 8.125%, 7/8/2005	400,000	447,719
General Motors Nova Finance, 6.85%, 10/15/2008	385,000	398,187	ISP Chemco, Inc., Series B, 10.25%, 7/1/2011	75,000	77,625
Household Finance Corp.: 5.75%, 1/30/2007	1,525,000	1,596,088	Kansas City Southern: 7.5%, 6/15/2009	50,000	52,750
6.375%, 11/27/2012	50,000	52,197	9.5%, 10/1/2008	60,000	66,075
6.5%, 1/24/2006	160,000	170,388	Kindercare Learning Centers, Inc., 9.5%, 2/15/2009	50,000	48,500
HSBC Holdings, Inc., 5.25%, 12/12/2012	1,505,000	1,542,593	Louisiana Pacific Corp., 10.875%, 11/15/2008	50,000	53,750
LaBranche & Co., Inc., 12.0%, 3/2/2007	60,000	66,900	Millennium America, Inc.: 7.0%, 11/15/2006	100,000	96,625
Ohio National Financial Services, 7.0%, 7/15/2011	1,254,000	1,338,704	9.25%, 6/15/2008	60,000	62,550
Ohio National Life Insurance, 8.5%, 5/15/2026	825,000	901,808	9.25%, 6/15/2008	130,000	135,525
PNC Funding Corp., 5.75%, 8/1/2006	1,025,000	1,097,214	Phelps Dodge Corp., 8.75%, 6/1/2011	55,000	56,905
Provident Co., Inc., 7.0%, 7/15/2018	310,000	274,934	SPX Corp., 7.5%, 1/1/2013	50,000	50,688
R.H. Donnelly Finance Corp., 10.875%, 12/15/2012	50,000	54,500	Systems 2001 Asset Trust LLC "G", Series 2001, 6.664%, 9/15/2013	1,345,761	1,450,326
SLM Corp., 5.125%, 8/27/2012	755,000	774,339	Terex Corp., 8.875%, 4/1/2008	50,000	45,063
UnumProvident Corp., 7.375%, 6/15/2032	155,000	130,613	United Rentals, Inc.: 9.25%, 1/15/2009	50,000	40,875
Verizon Global Funding Corp., 7.25%, 12/1/2010	1,615,000	1,835,499	10.75%, 4/15/2008	60,000	59,700
Wells Fargo & Co., 7.55%, 6/21/2010	1,000,000	1,190,034	Xerox Corp., 9.75%, 1/15/2009	100,000	96,000
		<b>23,228,250</b>			<b>10,212,284</b>
<b>Health Care 1.3%</b>			<b>Information Technology 0.8%</b>		
Amerisourcebergen Corp., 7.25%, 11/15/2012	75,000	76,875	Computer Associates, Inc., Series B, 6.5%, 4/15/2008	70,000	66,325
Health Care Service Corp., 7.75%, 6/15/2011	2,380,000	2,598,260	Raytheon Co.: 6.3%, 3/15/2005	180,000	192,051
HealthSouth Corp., 7.625%, 6/1/2012	175,000	144,375	6.5%, 7/15/2005	290,000	312,787
Radiologix, Inc., 10.5%, 12/15/2008	55,000	42,900	8.2%, 3/1/2006	825,000	926,909
Tenet Healthcare Corp., 6.375%, 12/1/2011	50,000	45,000	Sanmina-Sci Corp., 10.375%, 1/15/2010	50,000	50,500
		<b>2,907,410</b>	Seagate Technology Holdings, 8.0%, 5/15/2009	50,000	51,750
<b>Industrials 4.7%</b>			Solectron Corp., 9.625%, 2/15/2009	65,000	63,375
Allied Waste North America, Inc.: Series B, 7.625%, 1/1/2006	75,000	74,625			<b>1,663,697</b>
Series B, 8.5%, 12/1/2008	85,000	85,425	<b>Materials 1.2%</b>		
Series B, 10.0%, 8/1/2009	55,000	54,588	Dex Media East LLC: 9.875%, 11/15/2009	55,000	58,850
AutoNation, Inc., 9.0%, 8/1/2008	55,000	55,550	12.125%, 11/15/2012	50,000	55,375
Avis Group Holdings, Inc., 11.0%, 5/1/2009	125,000	136,875	Georgia-Pacific Corp.: 7.5%, 5/15/2006	120,000	114,000
Coinmach Corp., 9.0%, 2/1/2010	50,000	52,438	8.125%, 5/15/2011	50,000	47,500
Day International Group, Inc., 11.125%, 6/1/2005	50,000	51,000	Greif Brothers Corp., 8.875%, 8/1/2012	50,000	53,000
Delta Air Lines, Inc., Series 02-1, 6.417%, 7/2/2012	3,410,000	3,609,681	Lyondell Chemical Co., 9.5%, 12/15/2008	65,000	60,450
Dow Chemicals Co., 6.0%, 10/1/2012	1,900,000	1,941,810	Owens-Brockway Glass Container: 8.75%, 11/15/2012	50,000	50,750
DR Horton, Inc., 7.5%, 12/1/2007	55,000	53,900	8.875%, 2/15/2009	85,000	87,550
Equistar Chemicals LP, 8.75%, 2/15/2009	245,000	214,375	Schuler Homes, Inc., 9.375%, 7/15/2009	130,000	132,600
Fibermark, Inc., 10.75%, 4/15/2011	55,000	55,550	Toll Corp., 8.25%, 2/1/2011	55,000	55,275
Fort James Corp., 6.875%, 9/15/2007	50,000	47,500			
General Motors Acceptance Corp., 7.25%, 3/2/2011	800,000	815,225			

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

	Principal Amount (\$)	Value (\$)
<b>Weyerhaeuser Co.:</b>		
5.95%, 11/1/2008	1,150,000	1,227,619
7.375%, 3/15/2032	630,000	683,253
		<b>2,626,222</b>
<b>Telecommunication Services 0.5%</b>		
AT&T Wireless Services, Inc., 8.125%, 5/1/2012	60,000	60,300
Avaya, Inc., 11.125%, 4/1/2009	70,000	63,350
Motorola, Inc., 8.0%, 11/1/2011	50,000	51,750
Nextel Communications, Inc., 9.375%, 11/15/2009	75,000	67,875
Qwest Corp., 5.625%, 11/15/2008	185,000	157,250
<b>Sprint Capital Corp.:</b>		
5.7%, 11/15/2003	675,000	671,625
6.125%, 11/15/2008	60,000	54,600
US West Communication, Inc., 7.25%, 9/15/2025	50,000	39,500
		<b>1,166,250</b>
<b>Utilities 2.9%</b>		
Alabama Power Co., 7.125%, 8/15/2004	1,000,000	1,071,817
Cleveland Electric/Toledo, Series B, 7.13%, 7/1/2007	1,490,000	1,681,741
CMS Energy Corp., 7.5%, 1/15/2009	90,000	76,500
Pacificorp., 6.9%, 11/15/2011	825,000	941,964
<b>Progress Energy, Inc.:</b>		
6.75%, 3/1/2006	1,000,000	1,074,068
6.85%, 4/15/2012	1,230,000	1,346,809
Public Service Co. of Colorado, 7.875%, 10/1/2012	50,000	55,815
TNP Enterprises, Inc., Series B, 10.25%, 4/1/2010	50,000	47,000
		<b>6,295,714</b>
<b>Total Corporate Bonds (Cost \$54,612,030)</b>		<b>56,638,166</b>

#### Convertible Bonds 0.0%

DIMON, Inc., 6.25%, 3/31/2007 (Cost \$44,500)	50,000	45,000
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#### Asset Backed 6.7%

<b>Automobile Receivables 2.0%</b>		
AmeriCredit Automobile Receivables Trust "A4", Series 2001-C, 5.01%, 7/14/2008	1,530,000	1,615,352
MMCA Automobile Trust "A4", Series 2002-4, 3.05%, 11/16/2009	1,150,000	1,169,262
WFS Financial Owner Trust "A4", Series 2002-2, 4.5%, 2/20/2010	1,540,000	1,609,964
		<b>4,394,578</b>

#### Credit Card Receivables 0.4%

Citibank Credit Card Master Trust I "A", Series 1999-2, 5.875%, 3/10/2011	650,000	717,068
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	Principal Amount (\$)	Value (\$)
<b>Home Equity Loans 0.4%</b>		
Oakwood Mortgage Investors, Inc. "A2", Series 2002-B, 5.19%, 9/15/2019	900,000	919,724
<b>Manufactured Housing Receivables 1.0%</b>		
Conseco Finance Securitizations Corp. "A4", Series 2001-1, 6.21%, 7/1/2032	1,000,000	1,044,249
Green Tree Financial Corp. "A5", Series 1996-5, 7.05%, 1/15/2019	1,160,000	1,210,528
		<b>2,254,777</b>
<b>Miscellaneous 2.9%</b>		
Detroit Edison Securitization Funding LLC "A6", Series 2001-1, 6.62%, 3/1/2016	1,375,000	1,568,292
Federal Home Loan Mortgage Corp. "3A", Series T-41, 7.5%, 7/25/2032	714,950	775,050
PECO Energy Transition Trust "A1", Series 2001-A, 6.52%, 12/31/2010	1,790,000	2,046,501
<b>PSE&amp;G Transition Funding LLC:</b>		
"A7", Series 2001-1, 6.75%, 6/15/2016	900,000	1,030,388
"A8", Series 2001-1, 6.89%, 12/15/2017	800,000	933,868
		<b>6,354,099</b>
<b>Total Asset Backed (Cost \$13,955,156)</b>		<b>14,640,246</b>

#### Foreign Bonds — US\$ Denominated 2.9%

<b>British Sky Broadcasting PLC:</b>		
6.875%, 2/23/2009	60,000	61,350
8.2%, 7/15/2009	115,000	124,200
Euramax International PLC, 11.25%, 10/1/2006	50,000	51,625
Fage Dairy Industry SA, 9.0%, 2/1/2007	50,000	47,000
France Telecom, 7.75%, 3/1/2011	355,000	410,476
<b>Grupo Transportacion Ferroviaria Mexicana SA de CV:</b>		
10.25%, 6/15/2007	50,000	46,875
12.5%, 6/15/2012	80,000	80,800
Hurricane Hydrocarbons Ltd., 12.0%, 8/4/2006	50,000	50,750
Innova S de R.L., 12.875%, 4/1/2007	50,000	43,500
Pemex Finance Ltd., 9.14%, 8/15/2004	1,449,000	1,538,635
Pemex Project Funding Master Trust, 9.125%, 10/13/2010	50,000	57,250
Petroleos Mexicanos, 9.5%, 9/15/2027	965,000	1,109,750
PTC International Finance BV, Step-up Coupon, 10.75%, 7/1/2007	50,000	52,000
Republic of Turkey, 11.5%, 1/23/2012	50,000	51,500
Royal Caribbean Cruises Ltd., 8.75%, 2/2/2011	105,000	97,650
Sappi Papier Holding AG, 7.5%, 6/15/2032	950,000	1,067,338
Stagecoach Holdings PLC, 8.625%, 11/15/2009	110,000	106,040
Stena AB, 9.625%, 12/1/2012	80,000	82,600

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

	Principal Amount (\$)	Value (\$)
Stone Container Corp., 11.5%, 8/15/2006	50,000	53,000
Telus Corp., 8.0%, 6/1/2011	50,000	48,000
TFM SA de CV, 11.75%, 6/15/2009	55,000	53,900
Tyco International Group SA:		
5.8%, 8/1/2006	440,000	415,800
6.125%, 11/1/2008	525,000	490,875
6.125%, 1/15/2009	170,000	158,950
6.375%, 10/15/2011	50,000	46,750
Vicap SA, 11.375%, 5/15/2007	75,000	67,500
<b>Total Foreign Bonds — US\$ Denominated</b> (Cost \$6,118,455)		<b>6,414,114</b>

#### US Treasury Obligations 24.7%

US Treasury Bond:		
6.0%, 8/15/2009	1,776,000	2,064,877
6.0%, 2/15/2026	12,784,000	14,650,170
7.25%, 5/15/2016	3,113,000	3,986,100
10.75%, 8/15/2005	90,000	110,324
US Treasury Note:		
2.0%, 10/31/2004	3,845,000	3,887,357
5.875%, 11/15/2004	25,140,000	27,152,180
6.125%, 8/15/2007	1,991,000	2,289,495
<b>Total US Treasury Obligations</b> (Cost \$53,110,730)		<b>54,140,503</b>

#### US Government Agency Pass-Thrus 14.5%

Federal National Mortgage Association:		
5.0%, 1/1/2018	1,035,000	1,059,904
5.5%, 1/1/2018	1,530,000	1,584,985
5.78%, 10/1/2008	1,788,668	1,941,921
6.0%, 7/1/2017	1,600,412	1,674,718
6.0%, 1/1/2033	1,035,000	1,071,392
6.0%, 1/1/2033	1,805,000	1,865,356
6.292%, 12/1/2008	1,809,413	2,001,340
6.31%, 6/1/2008	1,500,000	1,668,515
6.5%, 3/1/2017	553,289	583,868
6.5%, 5/1/2017	814,424	859,436
6.5%, 11/1/2024	1,336,115	1,402,905
6.5%, 7/1/2030	972,874	1,014,591
6.5%, 8/1/2030	2,215,128	2,318,329
6.5%, 8/1/2032	2,143,002	2,232,314
6.5%, 8/1/2032	508,822	530,028
7.0%, 7/1/2031	1,457,106	1,532,648
7.0%, 9/1/2031	552,307	580,940
7.0%, 11/1/2031	468,918	493,228
7.0%, 11/1/2031	506,606	532,871
7.0%, 2/1/2032	1,802,456	1,895,902
7.0%, 3/1/2032	4,120,241	4,333,707
7.0%, 6/1/2032	279,348	293,821
8.0%, 9/1/2015	192,993	208,495
<b>Total US Government Agency Pass-Thrus</b> (Cost \$31,015,328)		<b>31,681,214</b>

#### Collateralized Mortgage Obligations 19.0%

ABN AMRO Mortgage Corp., Series 2002-3, 6.0%, 4/15/2017	1,566,504	1,612,532
Countrywide Home Loans, Series 2002-12, 6.0%, 8/25/2017	2,816,641	2,899,364
Federal Home Loan Mortgage Corp.:		
"1A2B", Series T-48, 4.688%, 7/25/2022	940,000	989,006
"WM", Series 2391, 5.25%, 10/15/2019	2,850,000	2,923,086
"DB", Series 2483, 5.5%, 9/15/2012	2,655,000	2,786,629
"CH", Series 2390, 5.5%, 12/15/2016	440,000	463,591
"PE", Series 2512, 5.5%, 2/15/2022	45,000	45,692
"TC", Series 2509, 5.5%, 10/15/2025	2,510,000	2,591,668
5.5% with various maturities until 8/15/2032	2,868,118	2,937,225
"BD", Series 2453, 6.0%, 5/15/2017	1,050,000	1,117,355
"AB", Series 2283, 6.0%, 3/15/2029	456,449	459,869
"HA", Series 2333, 6.0%, 5/15/2031	1,027,870	1,039,460
"DA", Series 2444, 6.5%, 2/15/2030	756,918	779,888
"PE", Series 2208, 7.0%, 12/15/2028	1,860,000	1,907,820
"A5", Series T-42, 7.5%, 2/25/2042	922,438	999,981
Federal National Mortgage Association:		
"A2", Series 2002-W9, 4.7%, 8/25/2042	510,000	523,989
"A2", Series 2002-W10, 4.7%, 8/25/2042	510,000	524,725
"A2", Series 2002-60, 4.75%, 2/25/2044	500,000	507,975
"PB", Series 2002-47, 5.5%, 9/25/2012	1,650,000	1,724,368
5.5%, 2/25/2017	500,000	521,094
"QC", Series 2002-11, 5.5%, 3/15/2017	640,000	673,310
"PA", Series 2001-48, 6.0%, 9/25/2013	2,109,110	2,160,747
"QN", Series 2001-51, 6.0%, 10/25/2016	1,550,000	1,647,977
"HM", Series 2002-36, 6.5%, 12/25/2029	772,938	796,039
"A5", Series 2002-W4, 7.5%, 5/25/2042	698,729	757,466
"2A", Series 2002-W6, 7.5%, 6/25/2042	1,176,595	1,275,503
Norwest Asset Securities Corp. "A4", Series 1999-26, 7.25%, 12/25/2029	1,290,409	1,307,305
Residential Funding Mortgage Securities I, Series 2001-529, 5.5%, 12/26/2031	3,919,078	4,022,635
Wells Fargo Mortgage Backed Securities Trust "A1", Series 2002-9, 6.25%, 6/25/2032	1,630,979	1,668,873
<b>Total Collateralized Mortgage Obligations</b> (Cost \$41,374,775)		<b>41,665,172</b>

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



	Principal Amount (\$)	Value (\$)
<b>Municipal Investments 2.2%</b>		
Brockton, MA, Core City GO, Economic Development, Series A, 6.45%, 5/1/2017 (c)	1,530,000	1,716,247
New York, State GO, Environmental Facilities Corp., Series B, 4.95%, 1/1/2013 (c)	1,500,000	1,526,055
Oklahoma City Airport, Airport Revenue, 5.2%, 10/1/2012 (c)	1,430,000	1,472,557
<b>Total Municipal Investments</b> (Cost \$4,466,932)		<b>4,714,859</b>

	Shares	Value (\$)
<b>Cash Equivalents 4.1%</b>		
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$9,076,912)	9,076,912	<b>9,076,912</b>
<b>Total Investment Portfolio — 100.0%</b> (Cost \$213,774,818) (a)		<b>219,016,186</b>

#### Notes to Scudder Investment Grade Bond Portfolio of Investments

- (a) The cost for federal income tax purposes was \$213,881,159. At December 31, 2002, net unrealized appreciation for all securities based on tax cost was \$5,135,027. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$5,483,826 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$348,799.
- (b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Bond is insured by one of these companies:

AMBAC	AMBAC Assurance Corp.
	Capital Guaranty
FGIC	Financial Guaranty Insurance Company

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$213,774,818)	\$ 219,016,186
Receivable for investments sold	2,303,500
Interest receivable	2,183,423
Receivable for Portfolio shares sold	315,524
Other assets	3,481
<b>Total assets</b>	<b>223,822,114</b>

### Liabilities

Payable for investments purchased	5,601,649
Payable for Portfolio shares redeemed	156,333
Accrued management fee	109,809
Other accrued expenses and payables	42,201
<b>Total liabilities</b>	<b>5,909,992</b>
<b>Net assets, at value</b>	<b>\$ 217,912,122</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	7,795,796
Net unrealized appreciation (depreciation) on investments	5,241,368
Accumulated net realized gain (loss)	(1,719,820)
Paid-in capital	206,594,778
<b>Net assets, at value</b>	<b>\$ 217,912,122</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$216,182,610 ÷ 18,049,005 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.98</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$1,729,512 ÷ 144,625 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.96</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Interest	\$ 9,200,510
Expenses:	
Management fee	1,056,716
Custodian fees	11,939
Distribution service fees	369
Auditing	22,986
Legal	2,417
Trustees' fees and expenses	1,660
Reports to shareholders	31,749
Other	10,683
<b>Total expenses, before expense reductions</b>	<b>1,138,519</b>
Expense reductions	(451)
<b>Total expenses, after expense reductions</b>	<b>1,138,068</b>
<b>Net investment income</b>	<b>8,062,442</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	226,395
Net unrealized appreciation (depreciation) during the period on investments	5,822,638
<b>Net gain (loss) on investment transactions</b>	<b>6,049,033</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 14,111,475</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 8,062,442	\$ 5,630,267
Net realized gain (loss) on investment transactions	226,395	1,801,523
Net unrealized appreciation (depreciation) on investment transactions during the period	5,822,638	(2,467,539)
Net increase (decrease) in net assets resulting from operations	14,111,475	4,964,251
Distributions to shareholders from:		
Net investment income		
Class A	(5,123,396)	(4,623,273)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	100,217,749	82,813,663
Reinvestment of distributions	5,123,396	4,623,273
Cost of shares redeemed	(31,852,501)	(31,584,271)
Net increase (decrease) in net assets from Class A share transactions	73,488,644	55,852,665
<b>Class B*</b>		
Proceeds from shares sold	1,702,476	—
Cost of shares redeemed	(637)	—
Net increase (decrease) in net assets from Class B share transactions	1,701,839	—
<b>Increase (decrease) in net assets</b>	<b>84,178,562</b>	<b>56,193,643</b>
Net assets at beginning of period	133,733,560	77,539,917
Net assets at end of period (including undistributed net investment income of \$7,795,796 and \$4,912,031, respectively)	<b>\$ 217,912,122</b>	<b>\$ 133,733,560</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	11,645,925	6,770,947
Shares sold	8,685,540	7,217,533
Shares issued to shareholders in reinvestment of distributions	465,763	414,684
Shares redeemed	(2,748,223)	(2,757,259)
Net increase (decrease) in Portfolio shares	6,403,080	4,874,978
Shares outstanding at end of period	<b>18,049,005</b>	<b>11,645,925</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	144,674	—
Shares redeemed	(49)	—
Net increase (decrease) in Portfolio shares	144,625	—
Shares outstanding at end of period	<b>144,625</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001 <sup>a</sup>	2000 <sup>b</sup>	1999 <sup>b</sup>	1998 <sup>b</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 11.48</b>	<b>\$ 11.45</b>	<b>\$ 11.00</b>	<b>\$ 11.65</b>	<b>\$ 11.18</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.53 <sup>c</sup>	.62 <sup>c</sup>	.69 <sup>c</sup>	.60 <sup>c</sup>	.32
Net realized and unrealized gain (loss) on investment transactions	.37	.01 <sup>d</sup>	.36	(.85)	.55
<b>Total from investment operations</b>	<b>.90</b>	<b>.63</b>	<b>1.05</b>	<b>(.25)</b>	<b>.87</b>
<i>Less distributions from:</i>					
Net investment income	(.40)	(.60)	(.60)	(.30)	(.30)
Net realized gains on investment transactions	—	—	—	(.10)	(.10)
<b>Total distributions</b>	<b>(.40)</b>	<b>(.60)</b>	<b>(.60)</b>	<b>(.40)</b>	<b>(.40)</b>
<b>Net asset value, end of period</b>	<b>\$ 11.98</b>	<b>\$ 11.48</b>	<b>\$ 11.45</b>	<b>\$ 11.00</b>	<b>\$ 11.65</b>
Total Return (%)	8.01	5.71	9.90	(2.06)	7.93
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	216	134	78	71	52
Ratio of expenses before expense reductions (%)	.65	.64	.68	.65	.67
Ratio of expenses after expense reductions (%)	.65	.64	.67	.65	.67
Ratio of net investment income (loss) (%)	4.57	5.46	6.36	5.42	5.50
Portfolio turnover rate (%)	267	176	311	131	130

<sup>a</sup> As required, effective January 1, 2001, the Portfolio has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. In addition, paydowns on mortgage-backed securities which were included in realized gain/loss on investment transactions prior to January 1, 2001 are included as interest income. The effect of this change for the year ended December 31, 2001 was to decrease net investment income per share by \$.01, increase net realized and unrealized gains and losses per share by \$.01 and decrease the ratio of net investment income to average net assets from 5.54% to 5.46%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.

<sup>b</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> The amount of net realized and unrealized gain shown for a share outstanding for the period ending December 31, 2001 does not correspond with the aggregate net loss on investments for the period due to the timing of sales and repurchases of Portfolio shares in relation to fluctuating market values of the investments of the Portfolio.

## Class B

Years Ended December 31,	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
<b>Net asset value, beginning of period</b>	<b>\$ 11.36</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.27
Net realized and unrealized gain (loss) on investment transactions	.33
<b>Total from investment operations</b>	<b>.60</b>
<b>Net asset value, end of period</b>	<b>\$ 11.96</b>
Total Return (%)	5.28 <sup>**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>	
Net assets, end of period (\$ millions)	2
Ratio of expenses (%)	.92 <sup>*</sup>
Ratio of net investment income (loss) (%)	4.69 <sup>*</sup>
Portfolio turnover rate (%)	267

<sup>a</sup> For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

<sup>\*</sup> Annualized

<sup>\*\*</sup> Not annualized

## Scudder Money Market Portfolio

Throughout 2002, the Federal Reserve Board kept interest rates quite low. The federal funds rate was 1.75 percent for most of the period, though the Fed further reduced that rate to 1.25 percent on November 6, as a means to further stimulate the sluggish US economy. As a result, most money market portfolio yields remained at historically low levels.

In this environment, the portfolio's total return (Class A shares) was 1.35 percent. In its statement accompanying the November rate cut, the Fed said that it was changing from a stimulative to a "neutral" stance, noting that it thought risks to the economy were equally balanced between inflation and slower growth. For this reason, we think short-term interest rates should remain relatively stable at least until mid-March 2003. Whether the Fed acts again depends on several factors, including holiday sales figures, consumer confidence and the risk of war in Iraq. Based on the position of the short-term yield curve, we have been purchasing money market instruments with three- to six-month maturities.

We don't believe that the yield pickup from six- to 12-month securities warrants taking any additional interest rate risk at this point. We do expect the yield curve to steepen (i.e., six- to 12-month yields to become more attractive) in the near future and are prepared to cautiously extend the average maturity of the fund at the appropriate time. Going forward, we will continue to seek competitive yields, maintain our conservative investment strategies and choose securities from only the highest quality issuers.

Darlene M. Rasel  
Lead Manager  
Deutsche Investment Management Americas Inc.

*An investment in the Scudder Money Market Portfolio is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the portfolio seeks to preserve the value of your investment at \$1.00 per unit, it is possible to lose money by investing in the portfolio.*

### Portfolio's Class A Shares Yield

	7-day yield	7-day compounded effective yield
<b>December 31, 2002</b>	1.14%	1.15%
<b>December 31, 2001</b>	1.58%	1.60%

*Yields will fluctuate and are not guaranteed.*

*Past performance is not a guarantee of future results. Returns and values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.*

## Scudder Money Market Portfolio

	Principal Amount (\$)	Value (\$)		Principal Amount (\$)	Value (\$)
<b>Certificates of Deposit and Bank Notes 28.7%</b>					
Barclays Bank PLC, 1.34%, 1/14/2003,	25,000,000	25,000,000	K2 (USA) LLC, 1.4%**, 6/5/2003,	15,000,000	14,909,583
Bank of Scotland PLC, 1.338%*, 4/30/2003,	10,000,000	9,999,087	KBC Financial Products International Ltd., 1.75%**, 1/28/2003,	25,000,000	24,967,188
Canadian Imperial Bank of Commerce, 2.07%, 3/20/2003,	10,000,000	10,002,091	Links Finance LLC, 1.33%**, 2/10/2003,	21,000,000	20,968,967
Canadian Imperial Bank of Commerce, 2.71%, 3/17/2003,	10,000,000	10,009,352	Merrill Lynch & Co., Inc., 1.7%**, 1/17/2003,	20,000,000	19,984,889
Dresdner Bank AG, 2.58%, 5/8/2003,	10,000,000	10,004,915	Mont Blanc Capital Corp., 1.78%**, 1/14/2003,	15,000,000	14,990,358
Landesbank Baden-Wuerttemberg, 2.41%, 6/16/2003,	10,000,000	10,007,174	Nordea Bank Finland PLC, 1.366%*, 9/10/2003,	20,000,000	19,995,844
National Australia Bank Ltd., 1.98%, 4/30/2003,	10,000,000	10,000,000	Northern Rock PLC, 1.73%**, 1/8/2003,	15,000,000	14,994,954
Svenska Handelsbanken, 2.5%, 6/13/2003,	12,000,000	11,998,676	Old Line Funding Corp., 1.33%**, 1/17/2003,	20,000,000	19,988,178
Toronto Dominion Bank, 1.384%*, 3/24/2003,	10,000,000	10,000,000	Pennine Funding LLC, 1.34%**, 2/14/2003,	15,000,000	14,975,433
Toronto Dominion Bank, 1.384%*, 4/23/2003,	10,000,000	10,000,000	Perry Global Funding LLC, 1.34%**, 1/10/2003,	15,000,000	14,994,975
Toronto Dominion Bank, 2.49%, 3/7/2003,	7,000,000	7,002,599	Private Export Funding Corp., 1.73%**, 1/16/2003,	5,000,000	4,996,396
UBS AG, 2.1%, 2/13/2003,	10,000,000	10,000,000	Private Export Funding Corp., 1.74%**, 1/23/2003,	5,000,000	4,994,683
US Bank of North America, 1.33%*, 1/10/2003,	10,000,000	10,000,000	Salomon Smith Barney, Inc., 1.79%*, 4/28/2003,	15,000,000	15,000,000
Westpac Banking Corp., 2.175%, 1/24/2003,	20,000,000	20,000,063	Scaldis Capital LLC, 1.83%**, 1/6/2003,	15,000,000	14,996,188
<b>Total Certificates of Deposit and Bank Notes</b> (Cost \$164,023,957)		<b>164,023,957</b>	Shell Finance PLC, 1.74%**, 1/13/2003,	15,000,000	14,991,300
			Spintab AB, 1.33%**, 2/12/2003,	20,000,000	19,968,967
			<b>Total Commercial Paper</b> (Cost \$355,656,626)		<b>355,656,626</b>
<b>Commercial Paper 62.1%</b>					
American Honda Finance Corp., 1.39%*, 9/8/2003,	25,000,000	25,000,000	<b>Repurchase Agreements*** 9.2%</b>		
Associates Corp. of North America, 1.48%*, 6/15/2003,	5,000,000	5,000,000	Goldman Sachs & Co., 1.23%, dated 12/31/02, to be repurchased at \$45,003,075 on 1/2/2003	45,000,000	45,000,000
DEPFA Bank Europe PLC, 1.7%**, 1/7/2003,	10,000,000	9,997,167	State Street Bank and Trust Co., 1.18%, dated 12/31/02, to be repurchased at \$7,545,495 on 1/2/2003	7,545,000	7,545,000
Dorada Finance, Inc., 1.33%**, 2/25/2003,	20,000,000	19,959,361	<b>Total Repurchase Agreements</b> (Cost \$52,545,000)		<b>52,545,000</b>
Falcon Asset Securitization Corp., 1.83%**, 1/10/2003,	5,000,000	4,997,712	<b>Total Investment Portfolio — 100.0%</b> (Cost \$572,225,583) (a)		<b>572,225,583</b>
Goldman Sachs Group, Inc., 1.86%*, 1/21/2003,	15,000,000	15,000,000			
Greyhawk Funding LLC, 1.33%**, 1/22/2003,	20,000,000	19,984,483			

## Notes to Scudder Money Market Portfolio of Investments

\* Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate. These securities are shown at their current rate as of December 31, 2002.

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

\*\*\* Repurchase agreements are fully collateralized by US Treasury or Government agency securities.

(a) Cost for federal income tax purposes was \$572,225,583.

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$572,225,583)	\$ 572,225,583
Cash	500
Interest receivable	1,645,312
Receivable for Portfolio shares sold	525,466
Other assets	10,456
<b>Total assets</b>	<b>574,407,317</b>

### Liabilities

Payable for Portfolio shares redeemed	1,326,763
Accrued management fee	241,857
Other accrued expenses and payables	160,664
<b>Total liabilities</b>	<b>1,729,284</b>
<b>Net assets, at value</b>	<b>\$ 572,678,033</b>

### Net Assets

Net assets consist of:	
Distributions in excess of net investment income	(18,450)
Paid-in capital	572,696,483
<b>Net assets, at value</b>	<b>\$ 572,678,033</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$569,996,356 ÷ 570,017,689 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 1.00</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$2,681,677 ÷ 2,681,662 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 1.00</b>
--	----------------

## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Interest	\$ 11,335,323
Expenses:	
Management fee	2,991,068
Custodian fees	32,699
Distribution service fees	729
Auditing	94,603
Legal	6,812
Trustees' fees and expenses	7,742
Reports to shareholders	73,047
Other	21,602
<b>Total expenses, before expense reductions</b>	<b>3,228,302</b>
Expense reductions	(703)
<b>Total expenses, after expense reductions</b>	<b>3,227,599</b>
<b>Net investment income</b>	<b>8,107,724</b>
<b>Net realized gain (loss) from investments</b>	<b>2,726</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 8,110,450</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 8,107,724	\$ 15,672,397
Net realized gain (loss) on investment transactions	2,726	9,357
Net increase (decrease) in net assets resulting from operations	8,110,450	15,681,754
Distributions to shareholders from:		
Net investment income		
Class A	(8,116,561)	(15,691,810)
Class B*	(3,224)	—
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	1,680,167,086	4,484,819,119
Reinvestment of distributions	8,508,646	16,051,939
Cost of shares redeemed	(1,789,369,613)	(4,108,987,621)
Net increase (decrease) in net assets from Class A share transactions	(100,693,881)	391,883,437
<b>Class B*</b>		
Proceeds from shares sold	3,226,564	—
Reinvestment of distributions	2,368	—
Cost of shares redeemed	(547,274)	—
Net increase (decrease) in net assets from Class B share transactions	2,681,658	—
<b>Increase (decrease) in net assets</b>	<b>(98,021,558)</b>	<b>391,873,381</b>
Net assets at beginning of period	670,699,591	278,826,210
Net assets at end of period (including distributions in excess of net investment income of \$18,450 at December 31, 2002)	<b>\$ 572,678,033</b>	<b>\$ 670,699,591</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	670,711,571	278,826,210
Shares sold	1,680,167,085	4,484,820,688
Shares issued to shareholders in reinvestment of distributions	8,508,646	16,051,939
Shares redeemed	(1,789,369,613)	(4,108,987,266)
Net increase (decrease) in Portfolio shares	(100,693,882)	391,885,361
Shares outstanding at end of period	<b>570,017,689</b>	<b>670,711,571</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	3,226,568	—
Shares issued to shareholders in reinvestment of distributions	2,368	—
Shares redeemed	(547,274)	—
Net increase (decrease) in Portfolio shares	2,681,662	—
Shares outstanding at end of period	<b>2,681,662</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.



# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000	1999	1998
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000
<i>Income from investment operations:</i>					
Net investment income (loss)	.013	.037	.059	.050	.050
<b>Total from investment operations</b>	<b>.013</b>	<b>.037</b>	<b>.059</b>	<b>.050</b>	<b>.050</b>
<i>Less distributions from:</i>					
Net investment income	(.013)	(.037)	(.059)	(.050)	(.050)
<b>Total distributions</b>	<b>(.013)</b>	<b>(.037)</b>	<b>(.059)</b>	<b>(.050)</b>	<b>(.050)</b>
Net asset value, end of period	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000
Total Return (%)	1.35	3.75	6.10	4.84	5.15
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	570	671	279	231	152
Ratio of expenses (%)	.54	.55	.58	.54	.54
Ratio of net investment income (loss) (%)	1.35	3.39	5.94	4.77	5.02

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
Net asset value, beginning of period	\$ 1.000
<i>Income (loss) from investment operations:</i>	
Net investment income (loss)	.007
<b>Total from investment operations</b>	<b>.007</b>
<i>Less distributions from:</i>	
Net investment income	(.007)
<b>Total distributions</b>	<b>(.007)</b>
Net asset value, end of period	\$ 1.000
Total Return (%)	.67**
<b>Ratios to Average Net Assets and Supplemental Data</b>	
Net assets, end of period (\$ millions)	3
Ratio of expenses before expense reductions (%)	.79*
Ratio of expenses after expense reductions (%)	.64*
Ratio of net investment income (loss) (%)	1.11*

<sup>a</sup> For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

\* Annualized

\*\* Not annualized

## Scudder Small Cap Growth Portfolio

In the year 2002, US equities declined for the third consecutive year, something that has not occurred in more than 60 years, and small-cap growth stocks were among the hardest hit. Most small-cap sectors produced negative returns within the portfolio. Information technology led the decline. Within health care, service companies such as hospital chains provided positive returns but many small biotechnology stocks were especially volatile.

In this tempestuous period, the portfolio fell slightly harder than the market. Stock selection in the modestly overweight sector of information technology detracted most significantly from portfolio returns. Financials, which suffered throughout the year, also hurt performance, even though the fund was underweight in this area. In an effort to help improve results, we gradually but significantly reduced the number of stocks throughout the annual period. We believe this would allow us to maintain a more closely monitored portfolio. Our efforts seemed to pay off in the fourth quarter. The portfolio provided strong positive results in the final quarter of the year, led by renewed strength in its technology positions. Many software and communications equipment holdings provided attractive returns.

The new portfolio management team that took the helm in November is further refining the portfolio to focus on those companies that they believe are well positioned to grow over the next three to five years. We see the primary risks for the months ahead led by consumer and investor sentiment. Earnings disappointments may also occur. Still, we are encouraged by the fact that coming out of recessions, small- and mid-cap stock earnings have historically exceeded those of large-cap stocks.

Audrey M.T. Jones

Samuel A. Dedio

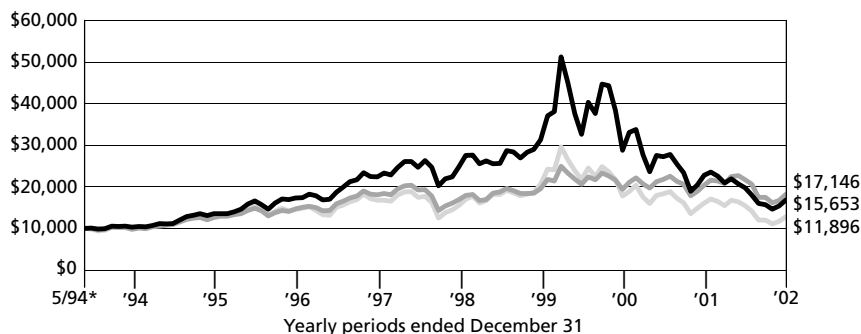
Doris R. Klug

Co-Managers

Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder Small Cap Growth Portfolio from 5/2/1994 to 12/31/2002

- Scudder Small Cap Growth Portfolio — Class A
- Russell 2000 Growth Index
- Russell 2000 Index



The Russell 2000 Growth Index is an unmanaged index (with no defined investment objective) of those securities in the Russell 2000 Index with a greater-than-average growth orientation. It includes reinvestment of dividends and is compiled by the Frank Russell Company. The Russell 2000 Index is a capitalization-weighted price-only index which is composed of 2,000 of the smallest stocks (on the basis of capitalization) in the Russell 3000 Index. The largest company in the index has an approximate market capitalization of \$591 million. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the Russell 2000 Growth Index, which better reflects the Portfolio's investment style, will be shown instead of the Russell 2000 Index.

### Average Annual Total Returns<sup>1</sup>

Scudder Small Cap Growth Portfolio	1-Year	3-Year	5-Year	Life of Portfolio
Class A	-33.36%	-24.93%	-7.59%	5.31% (Since 5/2/1994)*

\* The Portfolio shares commenced operations on May 2, 1994. Index returns begin April 30, 1994.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## Scudder Small Cap Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 84.8%</b>					
<b>Consumer Discretionary 14.5%</b>					
<b>Hotel Restaurants &amp; Leisure 3.1%</b>					
Alliance Gaming Corp.*	52,800	899,184			
California Pizza Kitchen, Inc.*	63,900	1,610,280			
Landry's Seafood Restaurants, Inc.	84,300	1,790,532			
Shuffle Master, Inc.*	21,100	403,221			
		<b>4,703,217</b>			
<b>Internet &amp; Catalog Retailing 0.6%</b>					
Alloy, Inc.*	87,800	961,410			
<b>Media 1.7%</b>					
Entercom Communications Corp.*	51,600	2,421,072			
Regent Communications, Inc.*	29,900	176,709			
		<b>2,597,781</b>			
<b>Specialty Retail 7.1%</b>					
Advance Auto Parts, Inc.*	36,600	1,789,740			
Copart, Inc.*	261,600	3,097,344			
Hancock Fabrics, Inc.	100,000	1,525,000			
Pier 1 Imports, Inc.	90,500	1,713,165			
Too, Inc.*	122,600	2,883,552			
		<b>11,008,801</b>			
<b>Textiles, Apparel &amp; Luxury Goods 2.0%</b>					
Brown Shoe Co., Inc.	66,600	1,587,078			
Gildan Activewear, Inc.*	66,400	1,554,424			
		<b>3,141,502</b>			
<b>Consumer Staples 5.2%</b>					
<b>Beverages 2.0%</b>					
Constellation Brands, Inc. "A"*	130,800	3,101,268			
<b>Food &amp; Drug Retailing 3.0%</b>					
Performance Food Group Co.*	87,600	2,974,808			
United Natural Foods, Inc.*	63,900	1,619,865			
		<b>4,594,673</b>			
<b>Food Products 0.2%</b>					
Peets Coffee & Tea, Inc.*	20,400	288,252			
<b>Energy 5.9%</b>					
<b>Energy Equipment &amp; Services 0.8%</b>					
FMC Technologies, Inc.*	62,700	1,280,961			
<b>Oil &amp; Gas 5.1%</b>					
Ocean Energy, Inc.	68,500	1,367,945			
Patina Oil & Gas Corp.	82,875	2,622,994			
Plains Exploration & Production Co.*	43,600	425,100			
Plains Resources, Inc.*	43,600	516,660			
Western Gas Resources, Inc.	38,300	1,411,355			
Westport Resources Corp.*	72,900	1,516,320			
		<b>7,860,374</b>			
<b>Financials 8.4%</b>					
<b>Banks 3.2%</b>					
First Niagara Financial Group, Inc.	53,200	1,389,584			
	100,380	3,567,606			
		<b>4,957,190</b>			
<b>Diversified Financials 2.7%</b>					
Chicago Mercantile Exchange*	3,300	144,078			
iShares Russell 2000 Growth	99,100	3,983,820			
		<b>4,127,898</b>			
<b>Insurance 2.5%</b>					
HCC Insurance Holdings, Inc.	110,200	2,710,920			
Philadelphia Consolidated Holding Corp.*	21,100	746,940			
Platinum Underwriters Holdings Ltd.*	20,100	529,635			
		<b>3,987,495</b>			
<b>Health Care 20.6%</b>					
<b>Biotechnology 4.9%</b>					
Celgene Corp.*	83,100	1,784,157			
Charles River Laboratories International, Inc.*	96,200	3,701,776			
Genta, Inc.*	195,200	1,501,088			
NeoPharm, Inc.*	66,300	672,282			
		<b>7,659,303</b>			
<b>Health Care Equipment &amp; Supplies 4.3%</b>					
Cytoc Corp.*	73,000	744,600			
Edwards Lifesciences Corp.*	114,100	2,906,127			
SurModics, Inc.*	104,300	2,991,324			
		<b>6,642,051</b>			
<b>Health Care Providers &amp; Services 7.0%</b>					
Accredo Health, Inc.*	68,400	2,411,100			
Caremark Rx, Inc.*	167,000	2,713,750			
DaVita, Inc.*	124,300	3,066,481			
Renal Care Group, Inc.*	86,600	2,740,024			
		<b>10,931,355</b>			
<b>Pharmaceuticals 4.4%</b>					
Biovail Corp.*	145,700	3,847,937			
NPS Pharmaceuticals, Inc.*	115,674	2,911,515			
		<b>6,759,452</b>			
<b>Industrials 9.9%</b>					
<b>Aerospace &amp; Defense 1.1%</b>					
United Defense Industries, Inc.*	70,800	1,649,640			
<b>Air Freight &amp; Logistics 1.5%</b>					
Expeditors International of Washington, Inc.	72,200	2,357,330			
<b>Airlines 2.2%</b>					
JetBlue Airways Corp.*	45,000	1,215,000			
SkyWest, Inc.	159,200	2,080,744			
		<b>3,295,744</b>			

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

	Shares	Value (\$)
<b>Commercial Services &amp; Supplies 3.5%</b>		
Career Education Corp.*	43,700	1,748,000
ChoicePoint Inc.*	94,066	3,714,666
		<b>5,462,666</b>
<b>Construction &amp; Engineering 1.0%</b>		
Insituform Technologies, Inc.*	91,700	1,563,485
<b>Road &amp; Rail 0.6%</b>		
Heartland Express, Inc.	42,200	966,844
<b>Information Technology 15.1%</b>		
<b>Communications Equipment 4.7%</b>		
Adaptec, Inc.*	378,100	2,136,265
McDATA Corp. "A"*	129,700	920,870
NetScreen Technologies, Inc.*	113,400	1,909,656
UTStarcom, Inc.*	117,800	2,335,974
		<b>7,302,765</b>
<b>Internet Software &amp; Services 1.1%</b>		
WebEx Communications, Inc.*	114,700	1,720,500
<b>Semiconductor Equipment &amp; Products 1.5%</b>		
Cree, Inc.*	89,700	1,466,595
Micro International Ltd.*	95,500	931,030
		<b>2,397,625</b>
<b>Software 7.8%</b>		
Business Objects SA (ADR)*	65,600	984,000
Epiq Systems, Inc.*	155,200	2,369,904
Fair, Isaac & Co., Inc.	93,500	3,992,449
Informatica Corp.*	233,300	1,343,808
NetIQ Corp.*	112,996	1,395,501
Take-Two Interactive Software, Inc.*	58,100	1,364,769
THQ, Inc.*	33,100	438,575
Witness Systems, Inc.*	48,000	165,120
		<b>12,054,126</b>

	Shares	Value (\$)
<b>Materials 3.9%</b>		
<b>Containers &amp; Packaging</b>		
Packaging Corp. of America*	161,900	2,953,056
Pactiv Corp.*	138,900	3,036,354
		<b>5,989,410</b>
<b>Telecommunication Services 1.3%</b>		
<b>Diversified Telecommunication Services 0.3%</b>		
Time Warner Telecom, Inc. "A"*	242,200	511,042
<b>Wireless Telecommunication Services 1.0%</b>		
Triton PCS Holdings, Inc. "A"*	367,500	1,444,275
<b>Total Common Stocks (Cost \$128,412,334)</b>		<b>131,318,435</b>

#### Preferred Stocks 0.1%

Applianceware LP* (c)	218,659	0
fusionOne* (c)	230,203	69,061
Planetweb, Inc. "E"* (c)	137,868	19,302
Convergent Networks, Inc.* (c)	113,149	56,574
<b>Total Preferred Stocks (Cost \$4,599,990)</b>		<b>144,937</b>

#### Cash Equivalents 15.1%

Scudder Cash Management QP Trust, 1.4% (b) (Cost \$23,434,277)	23,434,277	23,434,277
<b>Total Investment Portfolio — 100.0%</b> (Cost \$156,446,601) (a)		<b>154,897,649</b>

#### Notes to Scudder Small Cap Growth Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$156,531,023. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$1,633,374. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$16,816,226 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$18,449,600.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(c) Restricted securities are securities which have not been registered with the Securities and Exchange Commission under the Securities Act of 1933. The aggregate fair value of restricted securities at December 31, 2002 amounted to \$144,937, which represents 0.09% of net assets. Information concerning such restricted securities at December 31, 2002 is as follows:

Schedule of Restricted Securities	Acquisition Date	Acquisition Cost (\$)
Applianceware LP	July 2000	750,000
Convergent Networks, Inc.	September 2000	1,849,986
fusionOne	October 2000	1,250,002
Planetweb, Inc. "E"	September 2000	750,002

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$156,446,601)	\$ 154,897,649
Receivable for investments sold	346,080
Dividends receivable	37,946
Interest receivable	22,338
Receivable for Portfolio shares sold	167,008
Other assets	2,537
<b>Total assets</b>	<b>155,473,558</b>

### Liabilities

Payable for investments purchased	465,881
Payable for Portfolio shares redeemed	71,830
Accrued management fee	92,920
Other accrued expenses and payables	67,506
<b>Total liabilities</b>	<b>698,137</b>
<b>Net assets, at value</b>	<b>\$ 154,775,421</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	(17,000)
Net unrealized appreciation (depreciation) on investments	(1,548,952)
Accumulated net realized gain (loss)	(167,650,757)
Paid-in capital	323,992,130
<b>Net assets, at value</b>	<b>\$ 154,775,421</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$154,325,067 ÷ 18,086,694 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 8.53</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$450,354 ÷ 52,833 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 8.52</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld \$1,051)	\$ 466,785
Interest	406,410
<b>Total Income</b>	<b>873,195</b>
Expenses:	
Management fee	1,216,116
Custodian fees	7,894
Distribution service fees	96
Auditing	34,372
Legal	16,462
Trustees' fees and expenses	796
Reports to shareholders	46,071
Other	10,493
<b>Total expenses, before expense reductions</b>	<b>1,332,300</b>
Expense reductions	(733)
<b>Total expenses, after expense reductions</b>	<b>1,331,567</b>
<b>Net investment income (loss)</b>	<b>(458,372)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(69,485,640)
Written options	47,913
Foreign currency related transactions	41
	(69,437,686)
Net unrealized appreciation (depreciation) during the period on investments	(11,286,940)
<b>Net gain (loss) on investment transactions</b>	<b>(80,724,626)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (81,182,998)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ (458,372)	\$ (288,483)
Net realized gain (loss) on investment transactions	(69,437,686)	(79,443,167)
Net unrealized appreciation (depreciation) on investment transactions during the period	(11,286,940)	(7,240,482)
Net increase (decrease) in net assets resulting from operations	(81,182,998)	(86,972,132)
Distributions to shareholders from:		
Net realized gains		
Class A	—	(34,633,203)
Return of capital	—	(365,607)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	85,291,001	349,551,936
Reinvestment of distributions	—	34,998,810
Cost of shares redeemed	(81,642,175)	(331,756,115)
Net increase (decrease) in net assets from Class A share transactions	3,648,826	52,794,631
<b>Class B*</b>		
Proceeds from shares sold	459,851	—
Cost of shares redeemed	(186)	—
Net increase (decrease) in net assets from Class B share transactions	459,665	—
<b>Increase (decrease) in net assets</b>	<b>(77,074,507)</b>	<b>(69,176,311)</b>
Net assets at beginning of period	231,849,928	301,026,239
Net assets at end of period (including accumulated net investment loss of \$17,000 at December 31, 2002)	<b>\$ 154,775,421</b>	<b>\$ 231,849,928</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	18,115,952	13,908,178
Shares sold	7,801,504	25,358,987
Shares issued to shareholders in reinvestment of distributions	—	2,772,424
Shares redeemed	(7,830,762)	(23,923,637)
Net increase (decrease) in Portfolio shares	(29,258)	4,207,774
Shares outstanding at end of period	<b>18,086,694</b>	<b>18,115,952</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	52,851	—
Shares redeemed	(18)	—
Net increase (decrease) in Portfolio shares	52,833	—
Shares outstanding at end of period	<b>52,833</b>	—

\* For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a</sup>	1998 <sup>a</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 12.80</b>	<b>\$ 21.64</b>	<b>\$ 26.54</b>	<b>\$ 19.71</b>	<b>\$ 19.69</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	(.02) <sup>b</sup>	(.02) <sup>b</sup>	(.09) <sup>b</sup>	(.06) <sup>b</sup>	—
Net realized and unrealized gain (loss) on investment transactions	(4.25)	(6.27)	(2.01)	6.89	3.42
<b>Total from investment operations</b>	<b>(4.27)</b>	<b>(6.29)</b>	<b>(2.10)</b>	<b>6.83</b>	<b>3.42</b>
<i>Less distributions from:</i>					
Net realized gains on investment transactions	—	(2.52)	(2.80)	—	(3.40)
Return of capital	—	(.03)	—	—	—
<b>Total distributions</b>	<b>—</b>	<b>(2.55)</b>	<b>(2.80)</b>	<b>—</b>	<b>(3.40)</b>
<b>Net asset value, end of period</b>	<b>\$ 8.53</b>	<b>\$ 12.80</b>	<b>\$ 21.64</b>	<b>\$ 26.54</b>	<b>\$ 19.71</b>
Total Return (%)	(33.36)	(28.91)	(10.71)	34.56	18.37

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	154	232	301	264	208
Ratio of expenses (%)	.71	.68	.72	.71	.70
Ratio of net investment income (loss) (%)	(.24)	(.12)	(.34)	(.30)	(.01)
Portfolio turnover rate (%)	68	143	124	208	276

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> Based on average shares outstanding during the period.

## Class B

2002<sup>a</sup>

### Selected Per Share Data

<b>Net asset value, beginning of period</b>	<b>\$ 9.39</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	(.02)
Net realized and unrealized gain (loss) on investment transactions	(.85)
<b>Total from investment operations</b>	<b>(.87)</b>
<b>Net asset value, end of period</b>	<b>\$ 8.52</b>
Total Return (%)	(9.27)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.5
Ratio of expenses (%)	.96*
Ratio of net investment income (loss) (%)	(.39)*
Portfolio turnover rate (%)	68

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## Scudder Strategic Income Portfolio

Weak equity and corporate debt markets combined with a soft global economy, low interest rates and more concern about deflation than inflation in major developed countries led government bond yields to fall around the globe in the period. Emerging market debt began the year on a positive note, with strong cash inflows from retail and institutional investors. By the middle of the year global risk aversion, combined with growing uncertainty over the presidential election in Brazil, led to increased volatility in emerging markets. In the latter part of the year, however, the outlook improved as emerging markets began to benefit from modest recoveries in developed countries, and Brazil's new government took positive steps toward stability. Developed markets, meanwhile, advanced modestly thanks in part to continued low interest rates and investors' belief that the much-publicized accounting scandals were limited to a few high-profile companies.

In this environment, the portfolio's total return (Class A shares) was 11.30 percent. The portfolio benefited from its emerging-market exposure and participated in the strong performance of the government bond markets over the year. We avoided the Argentina default entirely and were cautious toward Brazil because of concerns of contagion from Argentina to other countries. Instead, exposure to Russia and Mexico helped, as these countries benefited from rising oil prices and increased investor demand.

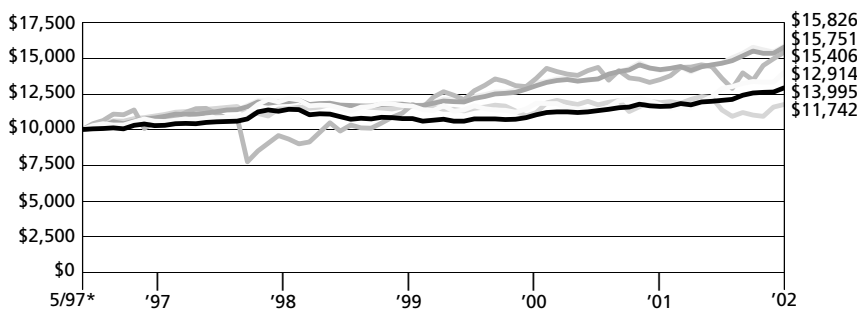
For the near term we expect the very mild growth in developed markets to continue. We also believe the favorable climate emerging markets experienced toward the end of the year will be sustained. We are remaining vigilant, as renewed growth leads to less concern about deflation and increases the specter of inflation.

Jan C. Faller	Andrew P. Cestone	Edwin Gutierrez
Lead Manager	Sean P. McCaffrey	Brett Diment
	Portfolio Managers	

Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder Strategic Income Portfolio from 5/1/1997 to 12/31/2002

- Scudder Strategic Income Portfolio
- Salomon Smith Barney World Government Bond Index
- JP Morgan Emerging Markets Bond Plus Index
- US High Yield Master Cash Pay Only Index
- Lehman Brothers Treasury Index
- Lehman Brothers Government / Corporate Bond Index



Yearly periods ended December 31

The Salomon Smith Barney World Government Bond Index is an unmanaged index comprised of government bonds from 18 developed countries (including the US) with maturities greater than one year. JP Morgan Emerging Markets Bond Plus Index is an unmanaged foreign securities index of US dollar- and other external-currency-denominated Brady bonds, loans, Eurobonds and local market debt instruments traded in emerging markets. The US High Yield Master Cash Pay Only Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market. Lehman Brothers Treasury Index is an unmanaged index reflecting the performance of all public obligations and does not focus on one particular segment of the Treasury market. Lehman Brothers Government / Corporate Bond Index is an unmanaged index comprised of intermediate- and long-term government and investment-grade corporate debt securities. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the JP Morgan Emerging Markets Bond Index, the Salomon Smith Barney World Government Bond Index, the US High Yield Master Cash Pay Only Index, the Lehman Brothers Treasury Index, which better reflect the Portfolio's investment style, will be shown instead of Lehman Brothers Government / Corporate Bond Index.

### Average Annual Total Returns<sup>1</sup>

	1-Year	3-Year	5-Year	Life of Portfolio	
Scudder Strategic Income Portfolio	11.30%	6.31%	4.65%	4.62%	(Since 5/1/1997)*

\* The Portfolio commenced operations on May 1, 1997. Index returns begin April 30, 1997.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

Effective 5/1/2000 the portfolio changed its name and investment objective.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.



## Scudder Strategic Income Portfolio

	Principal Amount (\$)	Value (\$)
<b>Foreign Bonds — US\$ Denominated 18.7%</b>		
Central Bank of Dominican Republic, 9.5%, 9/27/2006	50,000	53,000
Dominican Republic: 9.5%, 9/27/2006	300,000	318,000
9.5%, 9/27/2006	150,000	159,563
Federative Republic of Brazil: 10.125%, 5/15/2027	400,000	240,000
11.0%, 8/17/2040	130,000	80,925
11.0%, 8/17/2040	120,000	74,700
Series L, LIBOR plus .875%, 4/15/2012	850,000	463,250
Government of France, 4.5%, 7/12/2003	950,000	1,006,262
Ivory Coast, LIBOR plus .8125, 3/29/2018*	237,500	33,250
Petronas Capital Ltd., 7.875%, 5/22/2022	510,000	551,353
Petronas Nasional Berhad, 7.625%, 10/15/2026	300,000	315,000
Republic of Argentina: Series BGL4, 11.0%, 10/9/2006*	120,000	26,400
9.75%, 9/19/2027*	470,000	100,091
11.375%, 1/30/2017*	100,000	23,659
11.75%, 6/15/2015*	50,000	11,282
11.75%, 4/7/2009*	150,000	33,272
11.75%, 4/7/2009*	650,000	144,180
11.75%, 3/15/2010*	150,000	33,273
12.375%, 2/21/2012*	100,000	22,250
Republic of Bulgaria: 8.25%, 1/15/2015	720,000	786,600
Floating Rate Bond, LIBOR plus .8125%, 7/28/2011	72,750	67,476
Republic of Chile, 7.125%, 1/11/2012	200,000	223,800
Republic of Colombia: 7.625%, 2/15/2007	250,000	242,582
8.625%, 4/1/2008	200,000	200,000
10.5%, 7/9/2010	220,000	231,000
Republic of Columbia, 9.75%, 4/23/2009	182,000	187,460
Republic of Ecuador, Step-up Coupon, 6.0% to 8/1/2003, 7.0% to 8/1/2004	350,000	145,250
Republic of El Salvador, 7.75%, 1/24/2023	100,000	99,690
Republic of Philippines, 10.625%, 3/16/2025	250,000	257,500
Republic of Turkey: 10.5%, 1/13/2008	200,000	207,000
11.875%, 1/15/2030	900,000	945,000
12.375%, 6/15/2009	250,000	270,625
Republic of Venezuela: 9.25%, 9/15/2027	860,000	584,800
Series DL, Floating Rate Debt Conversion Bond, LIBOR plus .875%, 12/18/2007	238,090	182,139

	Principal Amount (\$)	Value (\$)
Russian Federation:		
11.0%, 7/24/2018	90,000	107,775
Step-up Coupon, 5% to 3/31/2007, 7.5% to 3/31/2030	180,000	142,875
Step-up Coupon, 5.0% to 3/31/2007, 7.0% to 3/31/2030	125,000	99,063
Step-up Coupon, 5.0% to 3/31/2007, 7.5% to 3/31/2030	1,070,000	849,313
Russian Ministry of Finance, Series V, 3.0%, 5/14/2008	410,000	323,900
Ukraine Government, 11.0%, 3/15/2007	252,000	260,820
United Mexican States:		
11.5%, 5/15/2026	215,000	293,475
11.5%, 5/15/2026	485,000	662,025
<b>Total Foreign Bonds — US\$ Denominated</b> (Cost \$10,331,185)		<b>11,059,878</b>

	Principal Amount (\$)	Value (\$)
<b>Foreign Bonds — Non US\$ Denominated 21.6%</b>		
European Investment Bank, 2.125%, 9/20/2007	JPY 139,000,000	1,273,757
Federal Republic of Germany, 6.25%, 1/4/2024	EUR 180,000	224,586
Government of Canada, 7.25%, 6/1/2007	CAD 850,000	612,784
Government of Spain, 5.15%, 7/30/2009	EUR 2,800,000	3,161,962
Ivory Coast: LIBOR plus .8125%, 3/29/2018*	EUR 335,388	45,952
Step-up Coupon, 1.9% to 3/31/2007, 2.9% to 3/29/2018*	EUR 7,241	1,026
KFW International Finance, 1.75%, 3/23/2010	JPY 137,000,000	1,260,229
Kredit Fuer Wiederaufbau, 5.0%, 7/4/2011	EUR 1,680,000	1,860,331
Pfandbriefstelle Ost Land Hypo, 1.6%, 2/15/2011	EUR 208,000,000	1,871,842
Republic of Argentina: 8.0%, 2/26/2008*	EUR 50,000	10,661
9.0%, 5/24/2005*	EUR 60,000	13,526
EURIBOR plus 5.1%, 12/22/2004*	EUR 200,000	43,887
Romania, 10.625%, 6/27/2008	EUR 300,000	372,767
Ukraine Government, 10.0%, 3/15/2007	EUR 218,400	227,922
United Kingdom Treasury Bond: 7.75%, 9/8/2006	GBP 50,000	90,590
9.0%, 7/12/2011	GBP 785,000	1,678,127
<b>Total Foreign Bonds — Non US\$ Denominated</b> (Cost \$11,690,574)		<b>12,749,949</b>

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

	Principal Amount (\$)	Value (\$)
<b>US Treasury Obligations 46.1%</b>		
US Treasury Bond:		
6.0%, 2/15/2026	3,250,000	3,724,425
7.25%, 5/15/2016	2,750,000	3,521,290
8.5%, 2/15/2020	3,385,000	4,879,555
10.375%, 11/15/2012	4,100,000	5,479,904
11.25%, 2/15/2015	575,000	957,577
12.75%, 11/15/2010	1,300,000	1,682,485
US Treasury Note:		
5.5%, 3/31/2003	1,500,000	1,515,468
6.5%, 2/15/2010	1,900,000	2,271,093
7.25%, 5/15/2004	3,000,000	3,240,936
<b>Total US Treasury Obligations (Cost \$25,967,180)</b>		<b>27,272,733</b>

	Principal Amount (\$)	Value (\$)
<b>US Agency Obligations 11.5%</b>		
Federal Home Loan Mortgage Corp.:		
2.875%, 9/15/2005	2,000,000	2,038,276
5.125%, 7/15/2012%, 9/15/2005	2,700,000	2,873,707
Federal National Mortgage Association, 5.25%, 1/15/2009	1,700,000	1,859,914
<b>Total US Agency Obligations (Cost \$6,525,152)</b>		<b>6,771,897</b>

	Shares	Value (\$)
<b>Cash Equivalents 2.1%</b>		
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$1,253,759)	1,253,759	1,253,759
<b>Total Investment Portfolio — 100.0%</b> (Cost \$55,767,850) (a)		<b>59,108,216</b>

### Notes to Scudder Strategic Income Portfolio of Investments

\* *Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or interest or has filed for bankruptcy.*

(a) *The cost for federal income tax purposes was \$55,797,143. At December 31, 2002, net unrealized appreciation for all securities based on tax cost was \$3,311,073. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$3,392,325 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$81,252.*

(b) *Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

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

#### Currency Abbreviation

EUR	Euro	JPY	Japanese Yen	CAD	Canadian Dollars	GBP	British Pounds
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*The accompanying notes are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$55,767,850)	\$ 59,108,216
Cash	10,000
Dividends receivable	3,326
Interest receivable	1,021,109
Receivable for Portfolio shares sold	138,661
Unrealized appreciation on forward foreign currency exchange contracts	13,351
Other assets	881
<b>Total assets</b>	<b>60,295,544</b>

### Liabilities

Payable for Portfolio shares redeemed	95,301
Unrealized depreciation on forward foreign currency exchange contracts	460,749
Accrued management fee	27,021
Other accrued expenses and payables	11,364
<b>Total liabilities</b>	<b>594,435</b>
<b>Net assets, at value</b>	<b>\$ 59,701,109</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	1,243,313
Net unrealized appreciation (depreciation) on:	
Investments	3,340,366
Foreign currency related transactions	(434,982)
Accumulated net realized gain (loss)	10,900
Paid-in capital	55,541,512
<b>Net assets, at value</b>	<b>\$ 59,701,109</b>

**Net Asset Value**, offering and redemption price per share (\$59,701,109 ÷ 5,379,967 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized) **\$ 11.10**

## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends	\$ 39,187
Interest	1,925,728
<b>Total Income</b>	<b>1,964,915</b>
Expenses:	
Management fee	256,045
Custodian fees	16,649
Auditing	4,618
Legal	449
Trustees' fees and expenses	378
Reports to shareholders	6,548
Other	1,759
<b>Total expenses, before expense reductions</b>	<b>286,446</b>
Expense reductions	(767)
<b>Total expenses, after expense reductions</b>	<b>285,679</b>
<b>Net investment income</b>	<b>1,679,236</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	449,977
Foreign currency related transactions	(395,165)
	54,812
Net unrealized appreciation (depreciation) during the period on:	
Investments	3,296,758
Foreign currency related transactions	(497,602)
	2,799,156
<b>Net gain (loss) on investment transactions</b>	<b>2,853,968</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 4,533,204</b>

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 1,679,236	\$ 695,369
Net realized gain (loss) on investment transactions	54,812	(37,804)
Net unrealized appreciation (depreciation) on investment transactions during the period	2,799,156	26,603
Net increase (decrease) in net assets resulting from operations	4,533,204	684,168
Distributions to shareholders from:		
Net investment income	(775,880)	(110,157)
Portfolio share transactions:		
Proceeds from shares sold	52,444,515	20,261,132
Reinvestment of distributions	775,880	110,157
Cost of shares redeemed	(18,007,287)	(9,208,486)
Net increase (decrease) in net assets from Portfolio share transactions	35,213,108	11,162,803
<b>Increase (decrease) in net assets</b>	<b>38,970,432</b>	<b>11,736,814</b>
Net assets at beginning of period	20,730,677	8,993,863
Net assets at end of period (including undistributed net investment income of \$1,243,313 and \$755,423, respectively)	<b>\$ 59,701,109</b>	<b>\$ 20,730,677</b>
<b>Other Information</b>		
Shares outstanding at beginning of period	2,018,991	912,080
Shares sold	4,981,682	1,998,893
Shares issued to shareholders in reinvestment of distributions	77,049	11,091
Shares redeemed	(1,697,755)	(903,073)
Net increase (decrease) in Portfolio shares	3,360,976	1,106,911
Shares outstanding at end of period	<b>5,379,967</b>	<b>2,018,991</b>

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

# Financial Highlights

Years Ended December 31,	2002	2001 <sup>a</sup>	2000 <sup>b</sup>	1999 <sup>b</sup>	1998 <sup>b</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 10.27</b>	<b>\$ 9.86</b>	<b>\$ 9.86</b>	<b>\$ 11.09</b>	<b>\$ 10.29</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.45 <sup>c</sup>	.48 <sup>c</sup>	.51 <sup>c</sup>	.47 <sup>c</sup>	.24
Net realized and unrealized gain (loss) on investment transactions	.68	.03	(.26)	(1.10)	.86
<b>Total from investment operations</b>	<b>1.13</b>	<b>.51</b>	<b>.25</b>	<b>(.63)</b>	<b>1.10</b>
<i>Less distributions from:</i>					
Net investment income	(.30)	(.10)	(.25)	(.40)	(.20)
Net realized gains on investment transactions	—	—	—	(.20)	(.10)
<b>Total distributions</b>	<b>(.30)</b>	<b>(.10)</b>	<b>(.25)</b>	<b>(.60)</b>	<b>(.30)</b>
<b>Net asset value, end of period</b>	<b>\$ 11.10</b>	<b>\$ 10.27</b>	<b>\$ 9.86</b>	<b>\$ 9.86</b>	<b>\$ 11.09</b>
Total Return (%)	11.30	5.23	2.57	(5.85)	10.98

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	60	21	9	6	5
Ratio of expenses before expense reductions (%)	.73	.66	1.14	1.03	1.08
Ratio of expenses after expense reductions (%)	.73	.65	1.10	1.01	1.08
Ratio of net investment income (loss) (%)	4.26	4.76	5.26	4.57	4.32
Portfolio turnover rate (%)	65	27	154	212	330

<sup>a</sup> As required, effective January 1, 2001, the Portfolio has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. In addition, paydowns on mortgage-backed securities which were included in realized gain/loss on investment transactions prior to January 1, 2001 are included as interest income. The effect of this change for the year ended December 31, 2001 was to decrease net investment income per share by \$.04, increase net realized and unrealized gains and losses per share by \$.04 and decrease the ratio of net investment income to average net assets from 5.16% to 4.76%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.

<sup>b</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>c</sup> Based on average shares outstanding during the period.

## Scudder Technology Growth Portfolio

The year 2002 was a time of continued and extreme volatility. An anemic capital spending outlook, negative earnings revisions, the risk of a US war with Iraq, corporate bankruptcies and accounting problems all weighed heavily on the equity market overall and on the technology sector in particular. In this tempestuous period, the series strategy of 1) remaining fully invested and 2) focusing on high-quality, strongly capitalized companies with solid market shares kept the portfolio more buoyant than its benchmark and average peer. While performance was well in the red, the portfolio was more resilient in part due to an overweighting in the software industry. Stock selection among software companies — as well as select holdings in communications equipment and computers and peripherals — all helped to reduce losses for the annual period. Stock selection among semiconductors was one of the more significant detractors from performance for the year.

Notably, this past autumn, after a brutish summer, investors began making commitments to technology stocks that appeared either undervalued or where companies were beginning to meet greatly reduced earnings expectations. Software stocks were especially strong during the fourth quarter.

We caution that the stock market has made many false recoveries during the past three years. We could very well see high volatility in the months ahead, especially given current global uncertainties. For 2003, we are generally more optimistic about the business spending environment for technology than the consumer area, and we have reduced our holdings in the electronic games area. We feel clear evidence of increased product demand must be visible before technology stocks rally for a sustained period. Still, we believe that the worst of the bear market is past, and that a healthier long-term investment environment is gradually emerging.

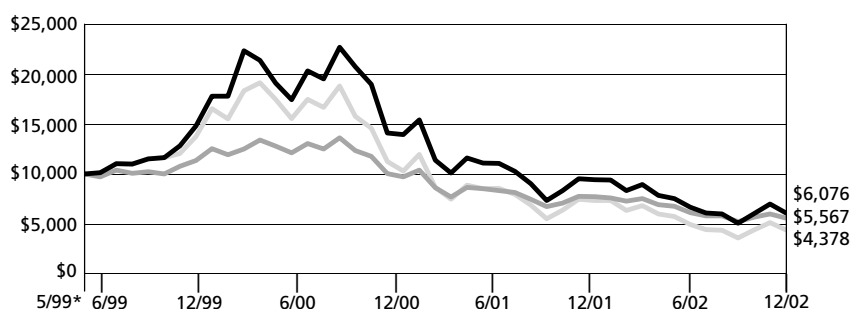
Blair Treisman

Lead Manager

Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder Technology Growth Portfolio from 5/1/1999 to 12/31/2002

- Scudder Technology Growth Portfolio — Class A
- Goldman Sachs Technology Index
- Russell 1000 Growth Index



The Goldman Sachs Technology Index is a modified capitalization-weighted index composed of companies involved in the technology industry. The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with greater-than-average growth orientation and represents the universe of stocks from which "earnings/growth" money managers typically select. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Effective April 5, 2002, the Portfolio's former benchmark, the JPMorgan H & Q Technology Index was discontinued. Beginning with the next annual report, the Goldman Sachs Technology Index, which better reflects the Portfolio's investment style, will be shown instead of the Russell 1000 Growth Index.

### Average Annual Total Returns<sup>1</sup>

Scudder Technology Growth Portfolio	1-Year	3-Year	Life of Portfolio <sup>2</sup>
Class A	-35.52%	-30.07%	-12.72% (Since 5/1/1999)*

\* The Portfolio commenced operations on May 1, 1999. Index returns begin April 30, 1999.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## Scudder Technology Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 91.7%</b>					
<b>Consumer Discretionary 6.7%</b>					
<b>Internet &amp; Catalog Retailing 3.0%</b>					
Amazon.com, Inc.*	98,200	1,854,998			
eBay, Inc.*	70,300	4,767,746			
		<b>6,622,744</b>			
<b>Media 3.7%</b>					
AOL Time Warner, Inc.*	623,500	8,167,850			
<b>Industrials 5.9%</b>					
<b>Commercial Services &amp; Supplies</b>					
Automatic Data Processing, Inc.	91,600	3,595,300			
Concord EFS, Inc.*	225,600	3,550,944			
First Data Corp.	107,400	3,803,034			
Paychex, Inc.	70,900	1,978,110			
		<b>12,927,388</b>			
<b>Information Technology 79.1%</b>					
<b>Communications Equipment 9.5%</b>					
Brocade Communications Systems, Inc.*	78,200	323,748			
Cisco Systems, Inc.*	822,800	10,778,680			
Motorola, Inc.	406,420	3,515,533			
Nokia Oyj (ADR)	66,500	1,030,750			
Nortel Networks Corp.*	579,600	933,156			
QUALCOMM, Inc.*	117,400	4,272,186			
Tellabs, Inc.*	180	1,309			
		<b>20,855,362</b>			
<b>Computers &amp; Peripherals 19.3%</b>					
Dell Computer Corp.*	319,775	8,550,783			
EMC Corp.*	956,000	5,869,840			
Hewlett-Packard Co.	364,276	6,323,831			
International Business Machines Corp.	224,000	17,360,000			
Lexmark International, Inc.*	44,700	2,704,350			
Sun Microsystems, Inc.*	486,888	1,514,222			
		<b>42,323,026</b>			
<b>Electronic Equipment &amp; Instruments 2.0%</b>					
Agilent Technologies, Inc.*	87,600	1,573,296			
Jabil Circuit, Inc.*	49,400	885,248			
Soletron Corp.*	541,300	1,921,615			
		<b>4,380,159</b>			
<b>Internet Software &amp; Services 1.5%</b>					
Check Point Software Technologies Ltd.*	76,200	988,314			
Yahoo!, Inc.*	139,400	2,279,190			
		<b>3,267,504</b>			
<b>IT Consulting &amp; Services 3.7%</b>					
Accenture Ltd. "A"*	159,100	2,862,209			
Computer Sciences Corp.*	59,500	2,049,775			
Electronic Data Systems Corp.	68,900	1,269,827			
SunGard Data Systems, Inc.*	76,000	1,790,560			
		<b>7,972,371</b>			
<b>Semiconductor Equipment &amp; Products 18.9%</b>					
Agere Systems, Inc. "A"*	4,583	6,600			
Agere Systems, Inc. "B"*	112,492	157,489			
Altera Corp.*	205,000	2,529,700			
Analog Devices, Inc.*	146,900	3,506,503			
Applied Materials, Inc.*	232,320	3,027,130			
ASML Holding NV*	231,400	1,934,504			
Broadcom Corp. "A"*	198,900	2,995,434			
Integrated Device Technology, Inc.*	97,500	816,075			
Intel Corp.	511,200	7,959,384			
KLA-Tencor Corp.*	94,600	3,346,002			
Linear Technology Corp.	62,700	1,612,644			
Maxim Integrated Products, Inc.	57,337	1,894,414			
Microchip Technology, Inc.	56,300	1,376,535			
Micron Technology, Inc.*	132,600	1,291,524			
STMicroelectronics NV (New York shares)	135,800	2,649,458			
Texas Instruments, Inc.	243,644	3,657,096			
Xilinx, Inc.*	124,800	2,570,880			
		<b>41,331,372</b>			
<b>Software 24.2%</b>					
Activision, Inc.*	46,700	681,353			
Adobe Systems, Inc.	20,380	507,666			
Amdocs Ltd.*	176,100	1,729,302			
BEA Systems, Inc.*	395,858	4,540,491			
BMC Software, Inc.*	89,700	1,534,767			
Computer Associates International, Inc.	121,800	1,644,300			
Electronic Arts, Inc.*	48,800	2,428,776			
Intuit, Inc.*	40,877	1,917,949			
Microsoft Corp.*	445,773	23,046,464			
Oracle Corp.*	794,300	8,578,440			
Siebel Systems, Inc.*	98,500	728,900			
Synopsys Ltd.*	23,800	1,098,370			
TIBCO Software, Inc.*	210,700	1,302,126			
VERITAS Software Corp.*	209,756	3,276,389			
		<b>53,015,293</b>			
<b>Total Common Stocks (Cost \$298,810,889)</b>				<b>200,863,069</b>	
<b>Cash Equivalents 8.3%</b>					
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$18,296,994)	18,296,994			<b>18,296,994</b>	
<b>Total Investment Portfolio — 100.0%</b> (Cost \$317,107,883) (a)				<b>219,160,063</b>	

## Notes to Scudder Technology Growth Portfolio

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$352,473,581. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$133,313,518. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$2,586,044 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$135,899,562.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$317,107,883)	\$ 219,160,063
Receivable for investments sold	167,220
Dividends receivable	63,491
Receivable for Portfolio shares sold	3,382
Foreign taxes recoverable	440
Other assets	3,260
<b>Total assets</b>	<b>219,397,856</b>

### Liabilities

Payable for Portfolio shares redeemed	225,958
Accrued management fee	146,450
Other accrued expenses and payables	64,705
<b>Total liabilities</b>	<b>437,113</b>
<b>Net assets, at value</b>	<b>\$ 218,960,743</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	\$ (2,887)
Net unrealized appreciation (depreciation) on investments	(97,947,820)
Accumulated net realized gain (loss)	(234,691,066)
Paid-in capital	551,602,516
<b>Net assets, at value</b>	<b>\$ 218,960,743</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$218,651,962 ÷ 36,318,161 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 6.02</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$308,781 ÷ 51,379 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 6.01</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld \$13,804)	\$ 516,089
Interest	656,174
<b>Total Income</b>	<b>1,172,263</b>
Expenses:	
Management fee	2,050,402
Custodian and accounting fees	56,671
Distribution service fee	80
Auditing	45,959
Legal	1,995
Trustees' fees and expenses	2,300
Reports to shareholders	31,837
Other	16,153
<b>Total expenses, before expense reductions</b>	<b>2,205,397</b>
Expense reductions	(50)
<b>Total expenses, after expense reductions</b>	<b>2,205,347</b>
<b>Net investment income (loss)</b>	<b>(1,033,084)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(113,508,578)
Written options	331,569
	(113,177,009)
Net unrealized appreciation (depreciation) during the period on:	
Investments	(16,313,176)
Written options	(72,572)
	(16,385,748)
<b>Net gain (loss) on investment transactions</b>	<b>(129,562,757)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (130,595,841)</b>

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



## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ (1,033,084)	\$ 370,567
Net realized gain (loss)	(113,177,009)	(78,667,194)
Net unrealized appreciation (depreciation) on investment transactions during the period	(16,385,748)	(45,141,464)
Net increase (decrease) in net assets resulting from operations	(130,595,841)	(123,438,091)
Distributions to shareholders from:		
Net investment income		
Class A	(313,166)	(547,146)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	49,377,515	284,035,950
Reinvestment of distributions	313,166	547,146
Cost of shares redeemed	(50,658,633)	(79,750,117)
Net increase (decrease) in net assets from Class A share transactions	(967,952)	204,832,979
<b>Class B*</b>		
Proceeds from shares sold	314,849	—
Cost of shares redeemed	(131)	—
Net increase (decrease) in net assets from Class B share transactions	314,718	—
<b>Increase (decrease) in net assets</b>	<b>(131,562,241)</b>	<b>80,847,742</b>
Net assets at beginning of period	350,522,984	269,675,242
Net assets at end of period (including accumulated net investment loss and undistributed net investment income of \$2,887 and \$205,524, respectively)	<b>\$ 218,960,743</b>	<b>\$ 350,522,984</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	37,439,839	19,442,070
Shares sold	5,869,117	25,541,476
Shares issued to shareholders in reinvestment of distributions	35,386	54,906
Shares redeemed	(7,026,181)	(7,598,613)
Net increase (decrease) in Portfolio shares	(1,121,678)	17,997,769
Shares outstanding at end of period	<b>36,318,161</b>	<b>37,439,839</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	51,400	—
Shares redeemed	(21)	—
Net increase (decrease) in Portfolio shares	51,379	—
Shares outstanding at end of period	<b>51,379</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a,b</sup>
<b>Selected Per Share Data</b>				
<b>Net asset value, beginning of period</b>	<b>\$ 9.36</b>	<b>\$ 13.87</b>	<b>\$ 17.77</b>	<b>\$ 10.00</b>
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>c</sup>	(.03)	.01	.04	.05
Net realized and unrealized gain (loss) on investment transactions	(3.30)	(4.50)	(3.84)	7.72
<b>Total from investment operations</b>	<b>(3.33)</b>	<b>(4.49)</b>	<b>(3.80)</b>	<b>7.77</b>
<i>Less distributions from:</i>				
Net investment income	(.01)	(.02)	—	—
Net realized gains on investment transactions	—	—	(.10)	—
<b>Total distributions</b>	<b>(.01)</b>	<b>(.02)</b>	<b>(.10)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 6.02</b>	<b>\$ 9.36</b>	<b>\$ 13.87</b>	<b>\$ 17.77</b>
Total Return (%)	(35.52)	(32.39)	(21.57)	77.70 <sup>d**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>				
Net assets, end of period (\$ millions)	219	351	270	84
Ratio of expenses before expense reductions (%)	.80	.81	.82	1.19*
Ratio of expenses after expense reductions (%)	.80	.81	.82	.94*
Ratio of net investment income (loss) (%)	(.37)	.12	.21	.60*
Portfolio turnover rate (%)	64	56	107	34*

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> For the period from May 1, 1999 (commencement of operations) to December 31, 1999.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized \*\* Not annualized

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
<b>Net asset value, beginning of period</b>	<b>\$ 6.32</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	(.02)
Net realized and unrealized gain (loss) on investment transactions	(.29)
<b>Total from investment operations</b>	<b>(.31)</b>
<b>Net asset value, end of period</b>	<b>\$ 6.01</b>
Total Return (%)	(4.75)**
<b>Ratios to Average Net Assets and Supplemental Data</b>	
Net assets, end of period (\$ millions)	.3
Ratio of expenses (%)	1.06*
Ratio of net investment income (loss) (%)	(.79)*
Portfolio turnover rate (%)	64

<sup>a</sup> For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## Scudder Total Return Portfolio

In spite of a relatively strong fourth quarter, US equity markets declined for the third year in a row in 2002. Continued earnings warnings from high-profile companies, investor focus on negative corporate and economic news, and the risk of war with Iraq kept a turnaround at bay through most of the year.

The portfolio's large-cap, growth-oriented investment style struggled in the value-oriented equity investment environment. However, gains in its high-quality bond portfolio tempered exposure to the equity market's volatility and helped mitigate losses from stock holdings.

The portfolio's information technology and industrial holdings detracted from performance. Consumer staples holdings added to performance. On a relative basis, the portfolio's lack of utility stocks in the portfolio also helped equity performance.

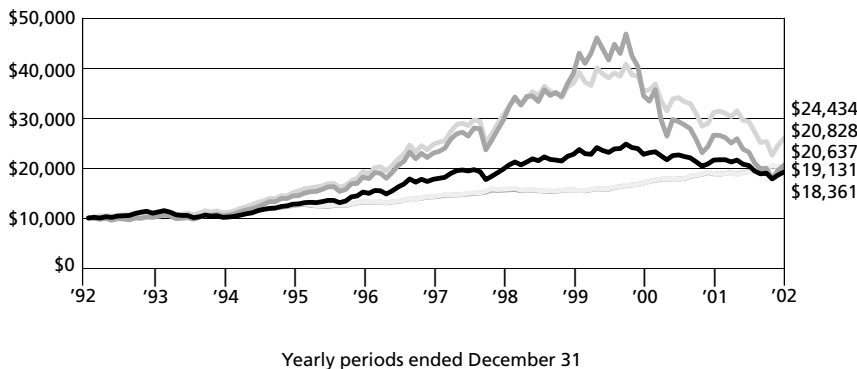
In December, a new investment team — Julie M. Van Cleave, Jack A. Zehner and Thomas J. Schmid — assumed management of the equity portion of the portfolio. The team is realigning the portfolio, using a top-down process that is combined with in-depth company research. When the realignment is complete, the portfolio will be diversified among 70 to 90 high-quality growth stocks across most sectors. Given the improving stock market outlook, the managers plan to increase the portfolio's stock allocation.

Julie M. Van Cleave	Thomas J. Schmid	Jack A. Zehner	Warren Davis
Lead Manager	J. Christopher Gagnier	Daniel Taylor	Janet Campagna
	Gary Bartlett	David Baldt	Andrew Cestone
	Thomas Flaherty		
	Portfolio Managers		

Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in Scudder Total Return Portfolio from 12/31/1992 to 12/31/2002

- Scudder Total Return Portfolio — Class A
- S&P 500 Index
- Lehman Brothers Aggregate Bond Index
- Russell 1000 Growth Index
- Lehman Brothers Government/Corporate Bond Index



The Standard & Poor's (S&P) 500 Index is a 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. The Lehman Brothers Aggregate Bond Index is an unmanaged market value-weighted measure of treasury issues, agency issues, corporate and issues and mortgage securities. The Russell 1000 Growth Index is an unmanaged index composed of common stock of larger US companies with greater-than-average growth orientation and represents the universe of stocks from which "earnings/growth" money managers typically select. The Lehman Brothers Government/Corporate Bond Index is an unmanaged index composed of intermediate and long-term government and investment grade corporate debt securities. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the S&P 500 Index and Lehman Brothers Aggregate Bond Index, which better reflect the Portfolio's investment style, will be shown instead of the Russell 1000 Growth Index and Lehman Brothers Government/Corporate Bond Index.

### Average Annual Total Returns<sup>1</sup>

Scudder Total Return Portfolio	1-Year	3-Year	5-Year	10-Year
Class A	-15.17%	-8.12%	.50%	6.26% (Since 4/6/1982)

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details. Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## Scudder Total Return Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 57.4%</b>					
<b>Consumer Discretionary 10.9%</b>					
<b>Automobiles 0.9%</b>					
Harley-Davidson, Inc.	124,200	5,738,040			
<b>Hotel Restaurants &amp; Leisure 0.6%</b>					
International Game Technology*	54,900	4,168,008			
<b>Household Durables 0.6%</b>					
Newell Rubbermaid, Inc.	121,700	3,691,161			
<b>Media 3.2%</b>					
AOL Time Warner, Inc.*	285,000	3,733,500			
Comcast Corp. "A"*	168,300	3,801,897			
McGraw-Hill, Inc.	65,600	3,964,864			
Omnicom Group, Inc.	76,900	4,967,740			
Viacom, Inc. "B"*	110,839	4,517,798			
		<b>20,985,799</b>			
<b>Multiline Retail 3.6%</b>					
Kohl's Corp.*	81,700	4,571,115			
Target Corp.	243,800	7,314,000			
Wal-Mart Stores, Inc.	217,400	10,980,874			
		<b>22,865,989</b>			
<b>Specialty Retail 2.0%</b>					
Home Depot, Inc.	303,200	7,264,672			
Staples, Inc.*	160,000	2,928,000			
TJX Companies, Inc.	150,200	2,931,904			
		<b>13,124,576</b>			
<b>Consumer Staples 5.1%</b>					
<b>Beverages 1.8%</b>					
Coca-Cola Co.	86,200	3,777,284			
PepsiCo, Inc.	187,820	7,929,760			
		<b>11,707,044</b>			
<b>Food &amp; Drug Retailing 0.6%</b>					
Walgreen Co.	132,900	3,879,351			
<b>Household Products 2.7%</b>					
Colgate-Palmolive Co.	184,500	9,673,335			
Procter & Gamble Co.	92,000	7,906,480			
		<b>17,579,815</b>			
<b>Energy 4.7%</b>					
<b>Energy Equipment &amp; Services 2.6%</b>					
Baker Hughes, Inc.	59,200	1,905,648			
Nabors Industries Ltd.*	209,300	7,382,011			
Noble Corp.*	54,100	1,901,615			
Schlumberger Ltd.	132,500	5,576,925			
		<b>16,766,199</b>			
<b>Oil &amp; Gas 2.1%</b>					
Anadarko Petroleum Corp.	134,600	6,447,340			
Burlington Resources, Inc.	78,300	3,339,495			
ConocoPhillips	77,900	3,769,581			
		<b>13,556,416</b>			
<b>Financials 6.8%</b>					
<b>Banks 0.8%</b>					
Bank of America Corp.	70,100	4,876,857			
<b>Diversified Financials 4.2%</b>					
American Express Co.	172,800	6,108,480			
Citigroup, Inc.	186,099	6,548,824			
Fannie Mae	113,700	7,314,321			
Morgan Stanley	93,500	3,732,520			
State Street Corp.	95,600	3,728,400			
		<b>27,432,545</b>			
<b>Insurance 1.8%</b>					
American International Group, Inc.	123,637	7,152,400			
Marsh & McLennan Companies, Inc.	93,600	4,325,256			
		<b>11,477,656</b>			
<b>Health Care 12.6%</b>					
<b>Biotechnology 1.2%</b>					
Genentech, Inc.*	133,300	4,420,228			
Gilead Sciences, Inc.*	90,100	3,063,400			
		<b>7,483,628</b>			
<b>Health Care Equipment &amp; Supplies 2.4%</b>					
Baxter International, Inc.	151,300	4,236,400			
Medtronic, Inc.	164,200	7,487,520			
Zimmer Holdings, Inc.*	96,200	3,994,224			
		<b>15,718,144</b>			
<b>Health Care Providers &amp; Services 1.2%</b>					
Laboratory Corp. of America Holdings*	183,400	4,262,216			
UnitedHealth Group, Inc.	42,700	3,565,450			
		<b>7,827,666</b>			
<b>Pharmaceuticals 7.8%</b>					
Abbott Laboratories	224,500	8,980,000			
Eli Lilly & Co.	130,500	8,286,750			
Johnson & Johnson	249,266	13,388,077			
Merck & Co., Inc.	83,000	4,698,630			
Pfizer, Inc.	500,075	15,287,293			
		<b>50,640,750</b>			
<b>Industrials 4.4%</b>					
<b>Aerospace &amp; Defense 1.1%</b>					
United Technologies Corp.	116,500	7,216,010			
<b>Air Freight &amp; Logistics 0.3%</b>					
FedEx Corp.	36,300	1,968,186			
<b>Commercial Services &amp; Supplies 0.9%</b>					
Concord EFS, Inc.*	110,600	1,740,844			
Fiserv, Inc.*	116,200	3,944,990			
		<b>5,685,834</b>			
<b>Industrial Conglomerates 2.1%</b>					
3M Co.	23,800	2,934,540			
General Electric Co.	449,100	10,935,585			
		<b>13,870,125</b>			

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



	Principal Amount (\$)	Value (\$)		Principal Amount (\$)	Value (\$)
<b>Consumer Staples 0.8%</b>			LaBranche & Co., Inc., 12.0%, 3/2/2007	70,000	78,050
Agrilink Foods, Inc., 11.875%, 11/1/2008	90,000	96,525	Ohio National Financial Services, 7.0%, 7/15/2011	1,656,000	1,767,858
Elizabeth Arden, Inc., Series B, 11.75%, 2/1/2011	50,000	51,500	Pemex Project Funding Master Trust, 9.125%, 10/13/2010	50,000	57,250
Fleming Companies, Inc., 10.125%, 4/1/2008	90,000	77,400	PNC Funding Corp., 5.75%, 8/1/2006	1,825,000	1,953,577
IMC Global, Inc., 10.875%, 6/1/2008	50,000	54,250	Provident Co., Inc., 7.0%, 7/15/2018	380,000	337,016
Jafra Cosmetics International, Inc., 11.75%, 5/1/2008	50,000	51,750	R.H. Donnelly Finance Corp., 10.875%, 12/15/2012	55,000	59,950
Service Corp. International, 7.7%, 4/15/2009	105,000	98,175	UnumProvident Corp., 7.375%, 6/15/2032	190,000	160,106
Stater Brothers Holdings, Inc., 10.75%, 8/15/2006	70,000	71,050	Wells Fargo & Co.: 7.25%, 8/24/2005	1,625,000	1,824,098
Willamette Industries, Inc., 7.85%, 7/1/2026	4,115,000	4,633,943	7.55%, 6/21/2010	625,000	743,771
		<u>4,633,943</u>			<u>27,556,852</u>
		<b>5,134,593</b>			
<b>Energy 0.5%</b>			<b>Health Care 0.5%</b>		
Avista Corp.: 7.75%, 1/1/2007	50,000	51,521	Amerisourcebergen Corp., 7.25%, 11/15/2012	50,000	51,250
9.75%, 6/1/2008	145,000	143,188	Health Care Service Corp., 7.75%, 6/15/2011	2,745,000	2,996,733
Chesapeake Energy Corp.: 8.125%, 4/1/2011	50,000	51,500	HealthSouth Corp., 7.625%, 6/1/2012	220,000	181,500
9.0%, 8/15/2012	60,000	63,600	Radiologix, Inc., 10.5%, 12/15/2008	50,000	39,000
Consumers Energy Co., 6.375%, 2/1/2008	50,000	48,468	Tenet Healthcare Corp., 6.375%, 12/1/2011	50,000	45,000
FirstEnergy Corp., Series B, 6.45%, 11/15/2011	55,000	54,716			<u>3,313,483</u>
Panhandle Eastern Pipe Line, 7.95%, 3/15/2023	80,000	72,252	<b>Industrials 1.6%</b>		
Parker Drilling Co., Series B, 10.125%, 11/15/2009	55,000	56,650	Allied Waste North America, Inc.: Series B, 8.5%, 12/1/2008	230,000	231,150
Pedernales Electric Coop, Series 02-A, 6.202%, 11/15/2032	2,090,000	2,142,104	Series B, 10.0%, 8/1/2009	65,000	64,513
Pioneer Natural Resources Co., 7.5%, 4/15/2012	50,000	54,064	AutoNation, Inc., 9.0%, 8/1/2008	70,000	70,700
Pride International, Inc., 10.0%, 6/1/2009	50,000	54,000	Avis Group Holdings, Inc., 11.0%, 5/1/2009	150,000	164,250
Stone Energy Corp., 8.75%, 9/15/2007	50,000	52,000	Coinmach Corp., 9.0%, 2/1/2010	50,000	52,438
Westar Energy, Inc., 7.875%, 5/1/2007	105,000	106,313	CP Ships Ltd., 10.375%, 7/15/2012	50,000	52,500
Westport Resources Corp., 8.25%, 11/1/2011	55,000	57,750	Day International Group, Inc., 11.125%, 6/1/2005	50,000	51,000
		<u>3,008,126</u>	Dow Chemical Co., 7.0%, 8/15/2005	1,625,000	1,766,614
			Equistar Chemicals LP, 8.75%, 2/15/2009	300,000	262,500
<b>Financials 4.2%</b>			Fibermark, Inc., 10.75%, 4/15/2011	55,000	55,550
Citigroup, Inc., 6.875%, 2/15/2098	2,755,000	2,996,032	Flowserve Corp., 12.25%, 8/15/2010	50,000	54,500
Corrections Corp. of America, 9.875%, 5/1/2009	55,000	58,300	Goodyear Tire & Rubber Co., 7.857%, 8/15/2011	105,000	78,632
Ford Motor Credit Co.: 6.5%, 1/25/2007	970,000	958,087	Hercules, Inc., 11.125%, 11/15/2007	65,000	72,475
7.6%, 8/1/2005	2,720,000	2,777,242	ISP Chemco, Inc., Series B, 10.25%, 7/1/2011	95,000	98,325
General Electric Capital Corp., 5.45%, 1/15/2013	1,345,000	1,397,100	Kansas City Southern: 7.5%, 6/15/2009	55,000	58,025
General Motors Acceptance Corp.: 5.25%, 5/16/2005	5,620,000	5,639,559	9.5%, 10/1/2008	80,000	88,100
6.875%, 9/15/2011	2,550,000	2,543,013	Kindercare Learning Centers, Inc., 9.5%, 2/15/2009	50,000	48,500
Household Finance Corp.: 6.375%, 11/27/2012	50,000	52,197	Louisiana Pacific Corp., 10.875%, 11/15/2008	50,000	53,750
6.5%, 1/24/2006	2,115,000	2,252,310	Metaldyne Corp., 11.0%, 6/15/2012	50,000	41,000
HSBC Holdings, Inc., 5.25%, 12/12/2012	1,855,000	1,901,336	Millennium America, Inc.: 7.0%, 11/15/2006	125,000	120,781
			9.25%, 6/15/2008	60,000	62,550
			9.25%, 6/15/2008	160,000	166,800
			Phelps Dodge Corp., 8.75%, 6/1/2011	65,000	67,251

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

	Principal Amount (\$)	Value (\$)
Plainwell, Inc., Series B, 11.0%, 3/1/2008*	1,020,000	10,200
Systems 2001 Asset Trust LLC "G", Series 2001, 6.664%, 9/15/2013	2,925,754	3,153,081
Terex Corp., 8.875%, 4/1/2008	50,000	45,063
Toll Corp., 8.0%, 5/1/2009	50,000	50,000
Trico Marine Services, 8.875%, 5/15/2012	50,000	46,250
United Rentals, Inc.:		
9.25%, 1/15/2009	50,000	40,875
10.75%, 4/15/2008	70,000	69,650
US Airways, Inc., Series 2000-2G, 8.02%, 2/5/2019	3,120,000	3,263,489
Xerox Corp., 9.75%, 1/15/2009	135,000	129,600
		<u>10,590,112</u>

### Information Technology 0.6%

Computer Associates, Inc.:		
Series B, 6.375%, 4/15/2005	50,000	48,500
Series B, 6.5%, 4/15/2008	50,000	47,375
Raytheon Co.:		
6.3%, 3/15/2005	2,985,000	3,184,843
6.5%, 7/15/2005	540,000	582,432
Sanmina-Sci Corp., 10.375%, 1/15/2010	50,000	50,500
Seagate Technology Holdings, 8.0%, 5/15/2009	55,000	56,925
Solectron Corp., 7.375%, 3/1/2006	85,000	79,050
		<u>4,049,625</u>

### Materials 0.3%

Dex Media East LLC:		
9.875%, 11/15/2009	60,000	64,200
12.125%, 11/15/2012	60,000	66,450
Georgia-Pacific Corp., 7.5%, 5/15/2006	300,000	285,000
Greif Brothers Corp., 8.875%, 8/1/2012	65,000	68,900
Lyondell Chemical Co., 9.5%, 12/15/2008	85,000	79,050
Owens-Brockway Glass Container:		
8.75%, 11/15/2012	50,000	50,750
8.875%, 2/15/2009	105,000	108,150
Schuler Homes, Inc., 9.375%, 7/15/2009	160,000	163,200
Toll Corp., 8.25%, 2/1/2011	70,000	70,350
	625,000	667,184
		<u>1,623,234</u>

### Telecommunication Services 0.1%

AT&T Wireless Services, Inc., 8.125%, 5/1/2012	70,000	70,350
Avaya, Inc., 11.125%, 4/1/2009	85,000	76,925
Motorola, Inc., 8.0%, 11/1/2011	50,000	51,750
Qwest Corp.:		
5.625%, 11/15/2008	180,000	153,000
8.875%, 3/15/2012	50,000	48,500
Sinclair Broadcast Group, 8.0%, 3/15/2012	50,000	52,125
Sprint Capital Corp., 6.125%, 11/15/2008	75,000	68,250
US West Communication, Inc., 7.25%, 9/15/2025	50,000	39,500
		<u>560,400</u>

	Principal Amount (\$)	Value (\$)
<b>Utilities 1.3%</b>		
Alabama Power Co., 7.125%, 8/15/2004	800,000	857,454
CMS Energy Corp., 7.5%, 1/15/2009	185,000	157,250
Pacificorp., 6.9%, 11/15/2011	1,700,000	1,941,016
Progress Energy, Inc.:		
6.75%, 3/1/2006	2,550,000	2,738,873
6.85%, 4/15/2012	2,245,000	2,458,201
Public Service Co. of Colorado, 7.875%, 10/1/2012	50,000	55,815
Southwest Gas Corp., 8.375%, 2/15/2011	50,000	55,638
TNP Enterprises, Inc., Series B, 10.25%, 4/1/2010	50,000	47,000
		<u>8,311,247</u>

**Total Corporate Bonds (Cost \$69,286,691) 71,347,801**

### Asset Backed 2.5%

#### Automobile Receivables 1.1%

Household Automotive Trust "A4", Series 2002-1, 4.39%, 5/18/2009	2,890,000	3,044,862
MMCA Automobile Trust "A4", Series 2002-4, 3.05%, 11/16/2009	700,000	711,725
WFS Financial Owner Trust "A4", Series 2002-2, 4.5%, 2/20/2010	3,090,000	3,230,383
		<u>6,986,970</u>

#### Credit Card Receivables 0.0%

MBNA Credit Card Master Note Trust "A", Series 1999-J, 7.0%, 2/15/2012	50,000	57,450
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#### Manufactured Housing Receivables 0.2%

Conseco Finance Securitizations Corp. "A4", Series 2001-1, 6.21%, 7/1/2032	1,290,000	1,347,081
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#### Miscellaneous 1.2%

Detroit Edison Securitization Funding LLC "A6", Series 2001-1, 6.62%, 3/1/2016	2,990,000	3,410,323
Federal Home Loan Mortgage Corp. "3A", Series T-41, 7.5%, 7/25/2032	1,394,152	1,511,348
PSE&G Transition Funding LLC "A7", Series 2001-1, 6.75%, 6/15/2016	2,300,000	2,633,215
		<u>7,554,886</u>

**Total Asset Backed (Cost \$15,001,560) 15,946,387**

### Foreign Bonds — US\$ Denominated 1.7%

Acetex Corp., 10.875%, 8/1/2009	50,000	53,000
Bluewater Finance Ltd., 10.25%, 2/15/2012	50,000	49,000
British Sky Broadcasting PLC:		
6.875%, 2/23/2009	75,000	76,688
8.2%, 7/15/2009	140,000	151,200
Corp Durango SA, 13.75%, 7/15/2009	50,000	17,500
Deutsche Telekom International Finance BV, 8.5%, 6/15/2010	1,260,000	1,451,185

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

	Principal Amount (\$)	Value (\$)
Esprit Telecom, Inc., 11.5%, 12/15/2007*	630,000	63
Euramax International PLC, 11.25%, 10/1/2006	55,000	56,788
Fage Dairy Industry SA, 9.0%, 2/1/2007	50,000	47,000
France Telecom, 7.75%, 3/1/2011	385,000	445,164
Grupo Transportacion Ferroviaria Mexicana SA de CV: 10.25%, 6/15/2007	120,000	112,500
12.5%, 6/15/2012	50,000	50,500
Hurricane Hydrocarbons Ltd., 12.0%, 8/4/2006	55,000	55,825
Innova S de R.L., 12.875%, 4/1/2007	50,000	43,500
Pemex Finance Ltd., 9.14%, 8/15/2004	2,810,500	2,984,358
Petroleos Mexicanos, 9.5%, 9/15/2027	775,000	891,250
PTC International Finance BV, 10.75%, 7/1/2007	50,000	52,000
Republic of Turkey, 11.5%, 1/23/2012	50,000	51,500
Royal Caribbean Cruises Ltd., 8.75%, 2/2/2011	105,000	97,650
Sappi Papier Holding AG, 6.75%, 6/15/2012	1,505,000	1,649,479
Stagecoach Holdings PLC, 8.625%, 11/15/2009	135,000	130,140
Stena AB: 8.75%, 6/15/2007	50,000	50,063
9.625%, 12/1/2012	65,000	67,113
Stone Container Corp., 11.5%, 8/15/2006	50,000	53,000
Telus Corp., 8.0%, 6/1/2011	50,000	48,000
TFM SA de CV, 11.75%, 6/15/2009	55,000	53,900
Tyco International Group SA: 5.8%, 8/1/2006	200,000	189,000
6.125%, 11/1/2008	1,770,000	1,654,950
6.125%, 1/15/2009	220,000	205,700
6.375%, 10/15/2011	220,000	205,700
Vicap SA, 11.375%, 5/15/2007	90,000	81,000
<b>Total Foreign Bonds — US\$ Denominated</b> (Cost \$11,329,558)		<b>11,074,716</b>

#### US Treasury Obligations 9.4%

US Treasury Bond: 6.0%, 8/15/2009	7,223,000	8,397,864
6.0%, 2/15/2026	15,091,000	17,293,939
10.75%, 8/15/2005	110,000	134,840
US Treasury Note: 2.0%, 10/31/2004	4,725,000	4,777,051
5.875%, 11/15/2004	21,086,000	22,773,702
6.125%, 8/15/2007	6,718,000	7,725,176
<b>Total US Treasury Obligations</b> (Cost \$58,990,537)		<b>61,102,572</b>

#### US Government Agency Pass-Thru 4.7%

Federal National Mortgage Association: 5.0%, 1/1/2018	1,275,000	1,305,679
5.946%, 2/1/2012	4,133,866	4,559,525
6.0%, 12/1/2008	5,960,000	6,159,290
6.0%, 1/1/2033	1,275,000	1,319,830
6.37%, 1/1/2008	3,000,000	3,254,888
6.5%, 5/1/2017	454,763	479,897
6.5%, 5/1/2017	774,843	817,667
6.5%, 6/1/2017	344,727	363,780
6.5%, 7/1/2030	3,925,924	4,090,506
6.5%, 8/1/2032	2,035,288	2,120,111
7.0%, 7/1/2031	2,034,419	2,139,891
7.0%, 9/1/2031	512,496	539,066
7.0%, 11/1/2031	509,342	535,748
7.0%, 11/1/2031	591,356	622,014
7.0%, 6/1/2032	1,257,068	1,322,195
8.0%, 9/1/2015	878,452	949,011
<b>Total US Government Agency Pass-Thru</b> (Cost \$29,519,159)		<b>30,579,098</b>

#### Collateralized Mortgage Obligations 9.8%

Federal Home Loan Mortgage Corp.: "WM", Series 2391, 5.25%, 10/15/2019	3,685,000	3,779,499
"DB", Series 2483, 5.5%, 9/15/2012	4,210,000	4,418,722
"PE", Series 2512, 5.5%, 2/15/2022	420,000	426,458
"TC", Series 2509, 5.5%, 10/15/2025	3,275,000	3,381,558
"BD", Series 2453, 6.0%, 5/15/2017	2,250,000	2,394,331
"D", Series 2281, 6.0%, 3/15/2027	2,264,267	2,311,266
"AB", Series 2283, 6.0%, 3/15/2029	585,643	590,032
"DA", Series 2444, 6.5%, 2/15/2030	976,877	1,006,522
Federal National Mortgage Association: "A2", Series 2002-W9, 4.7%, 8/25/2042	790,000	811,670
"A2", Series 2002-W10, 4.7%, 8/25/2042	790,000	812,810
"A2", Series 2002-60, 4.75%, 2/25/2044	600,000	609,570
"PB", Series 2002-47, 5.5%, 9/25/2012	3,150,000	3,291,976
"PE", Series 2002-3, 5.5%, 8/25/2015	4,690,000	4,972,946
"PM", Series 2002-21, 5.5%, 11/25/2022	2,315,836	2,372,056
"PA", Series 2001-48, 6.0%, 9/25/2013	2,364,473	2,422,362
"QN", Series 2001-51, 6.0%, 10/25/2016	3,110,000	3,306,586
"PY", Series 2002-31, 6.0%, 7/25/2014	5,000,000	5,209,384
"PD", Series 2002-31, 6.0%, 11/25/2021	6,500,000	6,858,277
"QN", Series 2001-38, 6.25%, 2/25/2027	2,520,000	2,560,754

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



	Principal Amount (\$)	Value (\$)
"HM", Series 2002-36, 6.5%, 12/25/2029	1,002,199	1,032,153
"A5", Series 2002-W4, 7.5%, 5/25/2042	1,460,164	1,582,909
"2A", Series 2002-W6, 7.5%, 6/25/2042	3,529,786	3,826,509
Norwest Asset Securities Corp. "A4", Series 1999-26, 7.25%, 12/25/2029	2,023,998	2,050,499
Structured Asset Securities Corp. "2A1", Series 2001-12, 5.75%, 9/25/2031	1,313,854	1,328,779
Wells Fargo Mortgage Backed Securities Trust "A1", Series 2002-9, 6.25%, 6/25/2032	1,992,145	2,038,444
<b>Total Collateralized Mortgage Obligations</b> (Cost \$62,050,781)		<b>63,396,072</b>

#### Municipal Investments 0.9%

Broward County, Airport Revenue, Airport Systems Revenue, Series J-2, 6.13%, 10/1/2007 (d)	1,000,000	1,115,590
Illinois, Higher Education Revenue, Educational Facilities Authority, Series C, 7.1%, 7/1/2012 (d)	1,000,000	1,182,630

#### Notes to Scudder Total Return Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$694,190,884. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$46,599,528. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$29,346,065 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$75,945,593.
- (b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) When-issued or forward delivery securities (see Notes to Financial Statements).
- (d) Bond is insured by one of these companies:

AMBAC	AMBAC Assurance Corp.
	Capital Guaranty
FGIC	Financial Guaranty Insurance Company

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

	Principal Amount (\$)	Value (\$)
New York, State GO, Environmental Facilities Corp., Series B, 4.95%, 1/1/2013 (d)	1,895,000	1,927,916
Ohio, Sales & Special Tax Revenue, 7.6%, 10/1/2016 (d)	1,000,000	1,152,170
<b>Total Municipal Investments (Cost \$5,248,830)</b>		<b>5,378,306</b>

Shares      Value (\$)

#### Cash Equivalents 2.6%

Scudder Cash Management QP Trust, 1.4% (b) (Cost \$17,008,454)	17,008,454	17,008,454
<b>Total Investment Portfolio — 100.0%</b> (Cost \$680,350,666) (a)		<b>647,591,356</b>

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$680,350,666)	\$ 647,591,356
Receivable for investments sold	2,839,982
Dividends receivable	355,338
Interest receivable	2,995,729
Receivable for Portfolio shares sold	18,323
Foreign taxes recoverable	10,667
Other assets	11,409
<b>Total assets</b>	<b>653,822,804</b>

### Liabilities

Payable for investments purchased	10,855,804
Payable for when-issued or forward delivery securities	44,500
Payable for Portfolio shares redeemed	1,509,160
Accrued management fee	326,089
Other accrued expenses and payables	151,087
<b>Total liabilities</b>	<b>12,886,640</b>
<b>Net assets, at value</b>	<b>\$ 640,936,164</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	18,300,385
Net unrealized appreciation (depreciation) on:	
Investments	(32,759,310)
Foreign currency related transactions	1,431
Accumulated net realized gain (loss)	(107,914,186)
Paid-in capital	763,307,844
<b>Net assets, at value</b>	<b>\$ 640,936,164</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$640,132,854 ÷ 34,306,666 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 18.66</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$803,310 ÷ 43,090 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 18.64</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$10,562)	\$ 4,258,594
Interest	17,703,791
<b>Total Income</b>	<b>21,962,385</b>
Expenses:	
Management fee	4,163,477
Custodian	27,358
Distribution service fees	227
Auditing	122,879
Legal	10,786
Trustees' fees and expenses	1,476
Reports to shareholders	61,722
Other	6,481
<b>Total expenses, before expense reductions</b>	<b>4,394,406</b>
Expense reductions	(401)
<b>Total expenses, after expense reductions</b>	<b>4,394,005</b>
<b>Net investment income (loss)</b>	<b>17,568,380</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(42,358,260)
Foreign currency related transactions	(835)
	(42,359,095)
Net unrealized appreciation (depreciation) during the period on:	
Investments	(103,339,960)
Foreign currency related transactions	3,104
	(103,336,856)
<b>Net gain (loss) on investment transactions</b>	<b>(145,695,951)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (128,127,571)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 17,568,380	\$ 22,360,504
Net realized gain (loss) on investment transactions	(42,359,095)	(56,870,277)
Net unrealized appreciation (depreciation) on investment transactions during the period	(103,336,856)	(21,279,820)
Net increase (decrease) in net assets resulting from operations	(128,127,571)	(55,789,593)
Distributions to shareholders from:		
Net investment income		
Class A	(21,620,590)	(25,554,195)
Net realized gains		
Class A	—	(30,345,606)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	33,792,802	64,222,667
Net assets acquired in tax-free reorganizations	—	109,998,831
Reinvestment of distributions	21,620,590	55,899,801
Cost of shares redeemed	(126,556,428)	(108,028,606)
Net increase (decrease) in net assets from Class A share transactions	(71,143,036)	122,092,693
<b>Class B*</b>		
Proceeds from shares sold	824,035	—
Cost of shares redeemed	(9,195)	—
Net increase (decrease) in net assets from Class B share transactions	814,840	—
<b>Increase (decrease) in net assets</b>	<b>(220,076,357)</b>	<b>10,403,299</b>
Net assets at beginning of period	861,012,521	850,609,222
Net assets at end of period (including undistributed net investment income of \$18,300,385 and \$21,251,953, respectively)	<b>\$ 640,936,164</b>	<b>\$ 861,012,521</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	38,151,295	32,828,444
Shares sold	1,590,630	2,830,464
Shares issued in tax-free reorganization	—	4,693,137
Shares issued to shareholders in reinvestment of distributions	987,692	2,497,199
Shares redeemed	(6,422,951)	(4,697,949)
Net increase (decrease) in Portfolio shares	(3,844,629)	5,322,851
Shares outstanding at end of period	<b>34,306,666</b>	<b>38,151,295</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	43,573	—
Shares redeemed	(483)	—
Net increase (decrease) in Portfolio shares	43,090	—
Shares outstanding at end of period	<b>43,090</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001 <sup>a</sup>	2000 <sup>b</sup>	1999 <sup>b</sup>	1998 <sup>b</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 22.57</b>	<b>\$ 25.91</b>	<b>\$ 28.82</b>	<b>\$ 27.35</b>	<b>\$ 28.22</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.47 <sup>c</sup>	.61 <sup>c</sup>	.74 <sup>c</sup>	.84 <sup>c</sup>	.86
Net realized and unrealized gain (loss) on investment transactions	(3.81)	(2.20)	(1.40)	3.03	3.17
<b>Total from investment operations</b>	<b>(3.34)</b>	<b>(1.59)</b>	<b>(.66)</b>	<b>3.87</b>	<b>4.03</b>
<i>Less distributions from:</i>					
Net investment income	(.57)	(.80)	(.90)	(.90)	(.90)
Net realized gains on investment transactions	—	(.95)	(1.35)	(1.50)	(4.00)
<b>Total distributions</b>	<b>(.57)</b>	<b>(1.75)</b>	<b>(2.25)</b>	<b>(2.40)</b>	<b>(4.90)</b>
<b>Net asset value, end of period</b>	<b>\$ 18.66</b>	<b>\$ 22.57</b>	<b>\$ 25.91</b>	<b>\$ 28.82</b>	<b>\$ 27.35</b>
Total Return (%)	(15.17)	(6.09)	(2.63)	14.81	15.14
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	640	861	851	952	865
Ratio of expenses (%)	.58	.58	.61	.61	.60
Ratio of net investment income (loss) (%)	2.32	2.63	2.75	3.12	3.33
Portfolio turnover rate (%)	140	115	107	80	81

<sup>a</sup> As required, effective January 1, 2001, the Portfolio adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. In addition, paydowns on mortgage-backed securities which were included in realized gain/loss on investment transactions prior to January 1, 2001 were included as interest income. The effect of this change for the year ended December 31, 2001 was to decrease net investment income per share by \$.03, increase net realized and unrealized gains and losses per share by \$.03 and decrease the ratio of net investment income to average net assets from 2.76% to 2.63%. Per share, ratios and supplemental data for periods prior to January 1, 2001 were not restated to reflect this change in presentation.

<sup>b</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>c</sup> Based on average shares outstanding during the period.

## Class B

Years Ended December 31,

2002<sup>a</sup>

### Selected Per Share Data

<b>Net asset value, beginning of period</b>	<b>\$ 19.46</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.18
Net realized and unrealized gain (loss) on investment transactions	(1.00)
<b>Total from investment operations</b>	<b>(.82)</b>
<b>Net asset value, end of period</b>	<b>\$ 18.64</b>
Total Return (%)	(4.21)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.8
Ratio of expenses (%)	.86*
Ratio of net investment income (loss) (%)	1.96*
Portfolio turnover rate (%)	140

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## SVS Davis Venture Value Portfolio

For the year ended December 31, 2002, the portfolio (Class A shares) outperformed the S&P 500 (-22.1 percent) by a wide margin and underperformed the Russell 1000 Value Index (-15.5 percent) slightly. For the quarter ending December 31, 2002, the SVS Davis Venture Value Portfolio (Class A shares) returned 6.5 percent, trailing both the 8.4 percent return for the S&P 500 and the 9.2 percent return for the Russell 1000 Value Index.

Our positive performance in the quarter reflected a general market rebound, following the market's worst quarterly decline since 1987 in the prior three months. We trailed the above indices primarily as a result of relatively weak performance in retail holdings, as well as an underweighting in technology, one of the strongest contributors to market performance during the quarter. Companies that were standout positive performers in the portfolio during the year included UPS, Wells Fargo and Devon Energy. On the negative side, the portfolio's performance was hurt by the likes of Tyco, Household International and Costco.

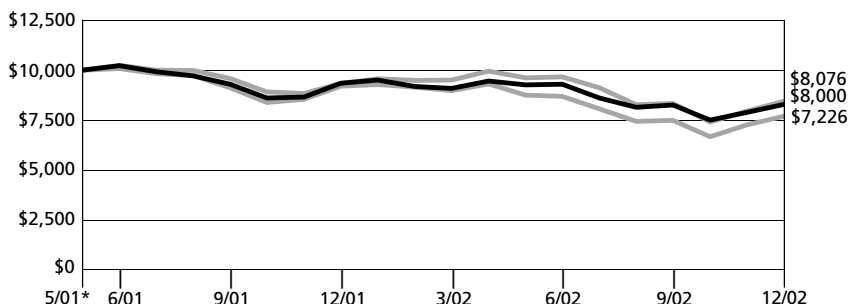
At Davis Advisors, our investment strategy is to find high-quality businesses at value prices. In the market declines of the last several years, we have focused on upgrading the quality of portfolio holdings at relatively attractive prices. We anticipate a sideways market for a number of years, with the Dow trading somewhere between 8,000 and 12,000 for the foreseeable future. Rather than attempt to characterize this environment as a "bull" or a "bear" market, we are evaluating the "risk/reward" of individual investments, as we believe this will be the key to generating competitive results both against benchmarks and peers.

Christopher C. Davis  
 Kenneth Charles Feinberg  
 Co-Managers  
 Davis Selected Advisors, L.P., Subadvisor to the Portfolio

*In this report Davis Advisors makes candid statements and observations regarding economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. All investments involve some degree of risk, and there can be no assurance that the investment strategies will be successful. Market values will vary so that an investor may experience a gain or a loss.*

### Growth of an Assumed \$10,000 Investment in SVS Davis Venture Value Portfolio from 5/1/2001 to 12/31/2002

- SVS Davis Venture Value Portfolio — Class A
- Russell 1000 Value Index
- S&P 500 Index



*Russell 1000 Value Index is an unmanaged index, which consists of those stocks in the Russell 1000 Index with lower price-to-book ratios and lower forecasted-growth values. The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the Russell 1000 Value Index, which better reflects the Portfolio's investment style, will be shown instead of the S&P 500 Index.*

### Average Annual Total Returns<sup>1</sup>

SVS Davis Venture Value Portfolio	1-Year	Life of Portfolio
Class A	-15.79%	-12.53% (Since 5/1/2001)*

\* The Portfolio commenced operations on May 1, 2001. Index returns begin April 30, 2001.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## SVS Davis Venture Value Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 90.1%</b>					
<b>Consumer Discretionary 6.0%</b>					
<b>Hotel Restaurants &amp; Leisure 0.8%</b>					
Marriott International, Inc. "A"	38,700	1,272,069			
<b>Media 1.2%</b>					
Gannett Co., Inc.	19,000	1,364,200			
WPP Group PLC (ADR)	16,400	621,232			
		<b>1,985,432</b>			
<b>Multiline Retail 3.4%</b>					
Costco Wholesale Corp.*	181,600	5,095,696			
J.C. Penny Co., Inc.	17,200	395,772			
		<b>5,491,468</b>			
<b>Specialty Retail 0.6%</b>					
RadioShack Corp.	51,200	959,488			
<b>Consumer Staples 11.2%</b>					
<b>Beverages 1.7%</b>					
Diageo PLC (ADR)	62,300	2,728,740			
<b>Food &amp; Drug Retailing 1.4%</b>					
Albertson's, Inc.	18,800	418,488			
Safeway, Inc.*	80,200	1,873,472			
		<b>2,291,960</b>			
<b>Food Products 2.0%</b>					
Hershey Foods Corp.	24,900	1,679,256			
Kraft Foods, Inc. "A"	38,500	1,498,805			
		<b>3,178,061</b>			
<b>Tobacco 6.1%</b>					
Philip Morris Companies, Inc.	241,700	9,796,101			
<b>Energy 5.7%</b>					
<b>Oil &amp; Gas</b>					
ConocoPhillips	79,060	3,825,713			
Devon Energy Corp.	71,600	3,286,440			
EOG Resources, Inc.	50,200	2,003,984			
		<b>9,116,137</b>			
<b>Financials 46.9%</b>					
<b>Banks 11.4%</b>					
Bank One Corp.	134,700	4,923,285			
Golden West Financial Corp.	69,600	4,997,976			
Lloyds TSB Group PLC (ADR)	57,100	1,632,489			
Wells Fargo & Co.	144,200	6,758,654			
		<b>18,312,404</b>			
<b>Diversified Financials 18.1%</b>					
American Express Co.	338,800	11,976,580			
Citigroup, Inc.	181,600	6,390,504			
Household International, Inc.	213,100	5,926,311			
Moody's Corp.	43,200	1,783,728			
Morgan Stanley	58,700	2,343,304			
Providian Financial Corp.*	18,500	120,065			
Stilwell Financial, Inc.	50,400	658,728			
		<b>29,199,220</b>			
<b>Insurance 15.3%</b>					
American International Group, Inc.	137,700	7,965,945			
Aon Corp.	80,700	1,524,423			
Berkshire Hathaway, Inc. "B"*	2,013	4,877,499			
Chubb Corp.	11,500	600,300			
Loews Corp.	52,300	2,325,258			
Markel Corp.*	1,300	267,150			
Principal Financial Group, Inc.	25,700	774,341			
Progressive Corp.	55,400	2,749,502			
Sun Life Financial Services of Canada, Inc.	15,300	260,865			
Transatlantic Holdings, Inc.	44,750	2,984,825			
Travelers Property Casualty Corp. "A"*	7,133	104,499			
Travelers Property Casualty Corp. "B"*	14,655	214,696			
		<b>24,649,303</b>			
<b>Real Estate 2.1%</b>					
Avalonbay Communities, Inc. (REIT)	2,900	113,506			
CenterPoint Properties Corp. (REIT)	58,700	3,354,705			
		<b>3,468,211</b>			
<b>Health Care 3.5%</b>					
<b>Pharmaceuticals</b>					
Eli Lilly & Co.	45,300	2,876,550			
Merck & Co., Inc.	16,600	939,726			
Pfizer, Inc.	31,900	975,183			
Pharmacia Corp.	20,400	852,720			
		<b>5,644,179</b>			
<b>Industrials 8.4%</b>					
<b>Air Freight &amp; Logistics 2.1%</b>					
United Parcel Service, Inc. "B"	53,500	3,374,780			
<b>Building Products 0.6%</b>					
American Standard Companies, Inc.*	12,700	903,478			
<b>Commercial Services &amp; Supplies 0.9%</b>					
The Dun & Bradstreet Corp.*	41,900	1,445,131			
<b>Industrial Conglomerates 3.7%</b>					
Tyco International Ltd.	351,562	6,004,679			
<b>Machinery 1.1%</b>					
Dover Corp.	61,300	1,787,508			
<b>Information Technology 4.1%</b>					
<b>Communications Equipment 0.2%</b>					
Tellabs, Inc.*	55,200	401,304			
<b>Computers &amp; Peripherals 1.8%</b>					
Lexmark International, Inc.*	47,400	2,867,700			
<b>Semiconductor Equipment &amp; Products 0.3%</b>					
Agere Systems, Inc. "A"*	346,500	498,960			
<b>Software 1.8%</b>					
BMC Software, Inc.*	56,600	968,426			
Microsoft Corp.*	36,000	1,861,200			
		<b>2,829,626</b>			

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

	Shares	Value (\$)
<b>Materials 4.3%</b>		
<b>Construction Materials 1.5%</b>		
Martin Marietta Materials, Inc.	37,100	1,137,486
Vulcan Materials Co.	35,300	1,323,750
		<u>2,461,236</u>
<b>Containers &amp; Packaging 2.8%</b>		
Sealed Air Corp.*	120,900	4,509,570
<b>Total Common Stocks</b> (Cost \$165,384,106)		<b>145,176,745</b>

	Shares	Value (\$)
<b>Cash Equivalents 9.9%</b>		
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$15,991,837)	15,991,837	15,991,837
<b>Total Investment Portfolio — 100.0%</b> (Cost \$181,375,943)		<b>161,168,582</b>

#### Notes to SVS Davis Venture Value Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$181,936,578. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$20,767,996. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$3,697,217 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$24,465,213.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.



# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$181,375,943)	\$ 161,168,582
Dividends receivable	297,036
Interest receivable	22,966
Receivable for Portfolio shares sold	30,661
Other assets	2,536
<b>Total assets</b>	<b>161,521,781</b>

### Liabilities

Payable for investments purchased	306,209
Payable for Portfolio shares redeemed	230,593
Accrued management fee	129,993
Other accrued expenses and payables	27,435
<b>Total liabilities</b>	<b>694,230</b>
<b>Net assets, at value</b>	<b>\$ 160,827,551</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	866,220
Net unrealized appreciation (depreciation) on investments	(20,207,361)
Accumulated net realized gain (loss)	(5,073,605)
Paid-in capital	185,242,297
<b>Net assets, at value</b>	<b>\$ 160,827,551</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$160,026,665 ÷ 20,031,383 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.99</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$800,886 ÷ 100,387 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.98</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$19,242)	\$ 2,157,968
Interest	297,693
<b>Total Income</b>	<b>2,455,661</b>
Expenses:	
Management fee	1,419,371
Custodian and accounting fees	56,135
Distribution service fees	190
Auditing	16,379
Legal	3,250
Trustees' fees and expenses	1,489
Reports to shareholders	15,869
Other	4,843
<b>Total expenses, before expense reductions</b>	<b>1,517,526</b>
Expense reductions	(465)
<b>Total expenses, after expense reductions</b>	<b>1,517,061</b>
<b>Net investment income (loss)</b>	<b>938,600</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(4,722,751)
Net unrealized appreciation (depreciation) during the period on investments	(22,773,678)
<b>Net gain (loss) on investment transactions</b>	<b>(27,496,429)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (26,557,829)</b>

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001 <sup>a</sup>
<b>Operations:</b>		
Net investment income (loss)	\$ 938,600	\$ 132,234
Net realized gain (loss) on investment transactions	(4,722,751)	(366,117)
Net unrealized appreciation (depreciation) on investment transactions during the period	(22,773,678)	2,566,317
Net increase (decrease) in net assets resulting from operations	(26,557,829)	2,332,434
<b>Distributions to shareholders:</b>		
From net investment income		
Class A	(189,351)	—
<b>Portfolio share transactions:</b>		
<b>Class A</b>		
Proceeds from shares sold	95,650,132	108,920,748
Reinvestment of distributions	189,351	—
Cost of shares redeemed	(17,854,770)	(2,467,279)
Net increase (decrease) in net assets from Class A share transactions	77,984,713	106,453,469
<b>Class B*</b>		
Proceeds from shares sold	805,134	—
Cost of shares redeemed	(1,019)	—
Net increase (decrease) in net assets from Class B share transactions	804,115	—
<b>Increase (decrease) in net assets</b>	<b>52,041,648</b>	<b>108,785,903</b>
Net assets at beginning of period	108,785,903	—
Net assets at end of period (including undistributed net investment income of \$866,220 and \$121,147, respectively)	<b>\$ 160,827,551</b>	<b>\$ 108,785,903</b>
<b>Other Information</b>		
<b>Class A</b>		
Shares outstanding at beginning of period	11,449,266	—
Shares sold	10,701,222	11,724,602
Shares issued to shareholder in reinvestment of distributions	20,080	—
Shares redeemed	(2,139,185)	(275,336)
Net increase (decrease) in Portfolio shares	8,582,117	11,449,266
Shares outstanding at end of period	<b>20,031,383</b>	<b>11,449,266</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	100,507	—
Shares redeemed	(120)	—
Net increase (decrease) in Portfolio shares	100,387	—
Shares outstanding at end of period	<b>100,387</b>	—

<sup>a</sup> For the period from May 1, 2001 (commencement of operations) to December 31, 2001.

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

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

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001 <sup>a</sup>
<b>Selected Per Share Data</b>		
<b>Net asset value, beginning of period</b>	<b>\$ 9.50</b>	<b>\$ 10.00</b>
<i>Income (loss) from investment operations:</i>		
Net investment income (loss) <sup>b</sup>	.05	.03
Net realized and unrealized gain (loss) on investment transactions	(1.55)	(.53) <sup>c</sup>
<b>Total from investment operations</b>	<b>(1.50)</b>	<b>(.50)</b>
<i>Less distributions from:</i>		
Net investment income	(.01)	—
<b>Net asset value, end of period</b>	<b>\$ 7.99</b>	<b>\$ 9.50</b>
Total Return (%)	(15.79)	(5.00)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	160	109
Ratio of expenses (%)	1.02	1.09*
Ratio of net investment income (loss) (%)	.62	.48*
Portfolio turnover rate (%)	22	15*

<sup>a</sup> For the period from May 1, 2001 (commencement of operations) to December 31, 2001.

<sup>b</sup> Based on average shares outstanding during the period.

<sup>c</sup> The amount of net realized and unrealized gain shown for a share outstanding for the period ending December 31, 2001 does not correspond with the aggregate net loss on investments for the period due to the timing of sales and repurchases of Portfolio shares in relation to fluctuating market values of the investments of the Portfolio.

\* Annualized

\*\* Not annualized

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
<b>Net asset value, beginning of period</b>	<b>\$ 8.52</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.04
Net realized and unrealized gain (loss) on investment transactions	(.58)
<b>Total from investment operations</b>	<b>(.54)</b>
<b>Net asset value, end of period</b>	<b>\$ 7.98</b>
Total Return (%)	(6.34)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.8
Ratio of expenses (%)	1.27*
Ratio of net investment income (loss) (%)	1.06*
Portfolio turnover rate (%)	22

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## SVS Dreman Financial Services Portfolio

For the third straight year, the overall market declined. Financial stocks weathered the storm better than most other segments. The portfolio declined but fell less than its benchmark, the Standard & Poor's Financial Index, a gauge of performance for the financial companies within the S&P 500.

The volatility provided a great opportunity for us to deploy our contrarian investment strategy. We began to conservatively increase the portfolio's exposure to diversified financial companies with brokerage and investment banking business lines. We've underweighted these stocks, but their deep declines made them attractive to us once again.

One of the most important contributors to performance was the portfolio's full weighting in regional banks relative to the benchmark. During a period when the broad market (S&P 500) was down sharply, many of the portfolio's regional bank stocks gained ground. While Fannie Mae and Freddie Mac continued to post positive earnings and outperform the broad market, their stock prices declined in 2002. We believe that the setback is temporary and that these stocks, which have lower price-to-earnings ratios and faster growth rates than many top-growth companies, will surge ahead once again.

Over the past year, we've seen encouraging signs that the economy and markets may be recovering. However, we believe the road to recovery is going to be a long one, with sharp rallies and equally sharp retreats.

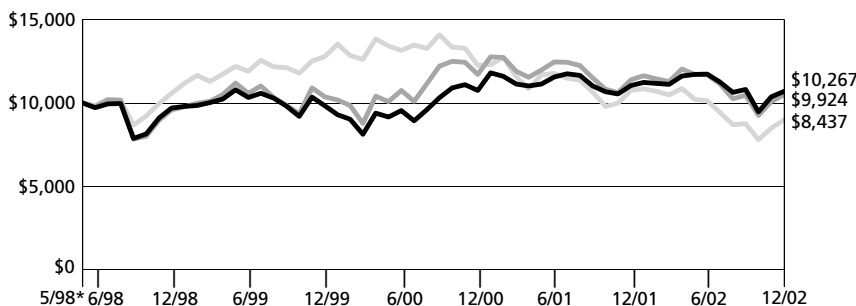
David N. Dreman

Lead Manager

Dreman Value Management, L.L.C., Subadvisor to the Portfolio

### Growth of an Assumed \$10,000 Investment in SVS Dreman Financial Services Portfolio from 5/4/1998 to 12/31/2002

- SVS Dreman Financial Services Portfolio — Class A
- S&P Financial Index
- S&P 500 Index



The Standard & Poor's (S&P) Financial Index is an unmanaged index generally representative of the financial stock market. The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index.

### Average Annual Total Returns<sup>1</sup>

SVS Dreman Financial Services Portfolio	1-Year	3-Year	Life of Portfolio <sup>2</sup>
Class A	-8.51%	3.41%	.57% (Since 5/4/1998)*

\* The Portfolio commenced operations on May 4, 1998. Index returns begin April 30, 1998.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower.

The portfolio may concentrate investments in specific sectors, which creates special risk considerations.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## SVS Dreman Financial Services Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 99.5%</b>					
<b>Financials</b>					
<b>Banks 44.8%</b>					
Bank of America Corp.	91,673	6,377,691			
Bank One Corp.	22,202	811,483			
Banknorth Group, Inc.	37,400	845,240			
Colonial BancGroup, Inc.	67,600	806,468			
First Tennessee National Corp.	36,550	1,313,607			
FleetBoston Financial Corp.	92,324	2,243,473			
Golden West Financial Corp.	13,700	983,797			
J.P. Morgan Chase & Co.	282,145	6,771,480			
KeyCorp.	170,075	4,275,686			
National Bank of Canada	140,250	2,879,163			
PNC Financial Services Group	75,150	3,148,785			
Popular, Inc.	46,650	1,576,770			
Provident Financial Group	23,465	610,794			
Union Planters Corp.	83,062	2,337,365			
US Bancorp.	157,100	3,333,662			
Wachovia Corp.	89,300	3,254,092			
Washington Mutual, Inc.	294,982	10,185,728			
Wells Fargo & Co.	49,950	2,341,157			
		<b>54,096,441</b>			
<b>Diversified Financials 32.3%</b>					
Allied Capital Corp.	63,945	1,395,915			
American Express Co.	144,800	5,118,680			
Bear Stearns Companies, Inc.	18,140	1,077,516			
CIT Group, Inc.	57,100	1,119,160			
Citigroup, Inc.	126,550	4,453,295			
Fannie Mae	141,390	9,095,619			
Franklin Resources, Inc.	21,750	741,240			
Freddie Mac	172,545	10,188,782			
Goldman Sachs Group, Inc.	8,100	551,610			
Merrill Lynch & Co., Inc.	46,650	1,770,368			
Morgan Stanley	53,150	2,121,748			
SLM Corp.	12,750	1,324,215			
		<b>38,958,148</b>			
<b>Insurance 22.4%</b>					
Allstate Corp.	38,405	1,420,601			
American International Group, Inc.	239,223	13,839,051			
Chubb Corp.	39,150	2,043,630			
Jefferson-Pilot Corp.	11,862	452,061			
Marsh & McLennan Companies, Inc.	38,000	1,755,980			
Ohio Casualty Corp.*	124,000	1,605,800			
Prudential Financial, Inc.*	37,700	1,196,598			
Safeco Corp.	80,550	2,792,669			
St. Paul Companies, Inc.	33,975	1,156,849			
Torchmark Corp.	16,300	595,439			
Travelers Property Casualty Corp. "A"	5,467	80,092			
Travelers Property Casualty Corp. "B"	11,233	164,563			
					<b>27,103,333</b>
<b>Total Common Stocks</b> (Cost \$125,230,605)					<b>120,157,922</b>
<b>Convertible Preferred Stocks 0.2%</b>					
<b>Financials</b>					
<b>Real Estate</b>					
Corrections Corp. of America (PIK) (Cost \$201,397)	11,632				<b>290,800</b>
<b>Cash Equivalents 0.3%</b>					
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$362,234)	362,234				<b>362,234</b>
<b>Total Investment Portfolio — 100.0%</b> (Cost \$125,794,236) (a)					<b>120,810,956</b>

## Notes to SVS Dreman Financial Services Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$126,543,552. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$5,732,596. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$6,566,339 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$12,298,935.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

PIK denotes that interest or dividends are paid in kind.

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$125,794,236)	\$ 120,810,956
Dividends receivable	133,764
Receivable for Portfolio shares sold	5,500
Other assets	1,982
<b>Total assets</b>	<b>120,952,202</b>

### Liabilities

Payable for Portfolio shares redeemed	247,845
Accrued management fee	78,220
Other accrued expenses and payables	31,002
<b>Total liabilities</b>	<b>357,067</b>
<b>Net assets, at value</b>	<b>\$ 120,595,135</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	1,796,612
Net unrealized appreciation (depreciation) on investments	(4,983,280)
Accumulated net realized gain (loss)	(5,569,231)
Paid-in capital	129,351,034
<b>Net assets, at value</b>	<b>\$ 120,595,135</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$120,206,320 ÷ 12,274,256 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.79</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$388,815 ÷ 39,762 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.78</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$13,733)	\$ 2,858,760
Interest	64,148
<b>Total Income</b>	<b>2,922,908</b>
Expenses:	
Management fee	964,831
Custodian and accounting fees	53,586
Distribution service fees	95
Auditing	22,290
Legal	2,543
Trustees' fees and expenses	1,622
Reports to shareholders	12,992
Other	5,904
<b>Total expenses, before expense reductions</b>	<b>1,063,863</b>
Expense reductions	(145)
<b>Total expenses, after expense reductions</b>	<b>1,063,718</b>
<b>Net investment income (loss)</b>	<b>1,859,190</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(2,469,629)
Foreign currency related transactions	(250)
	<b>(2,469,879)</b>
Net unrealized appreciation (depreciation) during the period on:	
Investments	(11,896,273)
Foreign currency related transactions	61
	<b>(11,896,212)</b>
<b>Net gain (loss) on investment transactions</b>	<b>(14,366,091)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (12,506,901)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 1,859,190	\$ 1,136,754
Net realized gain (loss) on investment transactions	(2,469,879)	(2,725,357)
Net unrealized appreciation (depreciation) on investment transactions during the period	(11,896,212)	(1,708,058)
Net increase (decrease) in net assets resulting from operations	(12,506,901)	(3,296,661)
Distributions to shareholders from:		
Net investment income		
Class A	(1,016,304)	(854,423)
Net realized gains		
Class A	—	(328,624)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	44,698,507	73,966,750
Reinvestment of distributions	1,016,304	1,183,047
Cost of shares redeemed	(29,037,952)	(19,481,552)
Net increase (decrease) in net assets from Class A share transactions	16,676,859	55,668,245
<b>Class B*</b>		
Proceeds from shares sold	394,220	—
Cost of shares redeemed	(117)	—
Net increase (decrease) in net assets from Class B share transactions	394,103	—
<b>Increase (decrease) in net assets</b>	<b>3,547,757</b>	<b>51,188,537</b>
Net assets at beginning of period	117,047,378	65,858,841
Net assets at end of period (including undistributed net investment income of \$1,796,612 and \$953,975, respectively)	<b>\$ 120,595,135</b>	<b>\$ 117,047,378</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	10,853,999	5,713,070
Shares sold	4,164,073	6,837,995
Shares issued to shareholders in reinvestment of distributions	91,807	114,361
Shares redeemed	(2,835,623)	(1,811,427)
Net increase (decrease) in Portfolio shares	1,420,257	5,140,929
Shares outstanding at end of period	<b>12,274,256</b>	<b>10,853,999</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	39,774	—
Shares redeemed	(12)	—
Net increase (decrease) in Portfolio shares	39,762	—
Shares outstanding at end of period	<b>39,762</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a</sup>	1998 <sup>a,b</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 10.78</b>	<b>\$ 11.53</b>	<b>\$ 9.24</b>	<b>\$ 9.78</b>	<b>\$ 10.00</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.15 <sup>c</sup>	.14 <sup>c</sup>	.19 <sup>c</sup>	.18 <sup>c</sup>	.04
Net realized and unrealized gain (loss) on investment transactions	(1.06)	(.71)	2.27	(.67)	(.26)
<b>Total from investment operations</b>	<b>(.91)</b>	<b>(.57)</b>	<b>2.46</b>	<b>(.49)</b>	<b>(.22)</b>
<i>Less distributions from:</i>					
Net investment income	(.08)	(.13)	(.15)	(.05)	—
Net realized gains on investment transactions	—	(.05)	(.02)	—	—
<b>Total distributions</b>	<b>(.08)</b>	<b>(.18)</b>	<b>(.17)</b>	<b>(.05)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 9.79</b>	<b>\$ 10.78</b>	<b>\$ 11.53</b>	<b>\$ 9.24</b>	<b>\$ 9.78</b>
Total Return (%)	(8.51)	(4.86)	27.04	(5.05) <sup>d</sup>	(2.20) <sup>d**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	120	117	66	27	16
Ratio of expenses before expense reductions (%)	.83	.86	.91	1.04	1.73*
Ratio of expenses after expense reductions (%)	.83	.86	.89	.99	.99*
Ratio of net investment income (loss) (%)	1.44	1.31	2.01	1.75	1.29*
Portfolio turnover rate (%)	13	22	13	13	6*

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> For the period from May 4, 1998 (commencement of operations) to December 31, 1998.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
<b>Net asset value, beginning of period</b>	<b>\$ 10.57</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.06
Net realized and unrealized gain (loss) on investment transactions	(.85)
<b>Total from investment operations</b>	<b>(.79)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.78</b>
Total Return (%)	(7.47) <sup>**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>	
Net assets, end of period (\$ millions)	.4
Ratio of expenses (%)	1.08*
Ratio of net investment income (loss) (%)	1.33*
Portfolio turnover rate (%)	13

<sup>a</sup> For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized



## SVS Dreman High Return Equity Portfolio

The markets remained volatile this period. While volatility can be unsettling, it provided a great opportunity for us to deploy our contrarian value investment strategy. The portfolio declined during the period, but lost less than its benchmark, the S&P 500 Index. The S&P 500 Index is an unmanaged group of large-cap stocks that are representative of the US stock market. The portfolio's positions in financials and consumer staples stocks added to performance. Value stocks continued to outperform growth stocks in 2002, which also helped relative performance.

An important part of the portfolio's long-term success is due to its focus on high-dividend-yielding stocks. With an increasing emphasis on yield, we believe this will continue to be a major benefit for the portfolio in the future.

Over the past few years, the portfolio has been concentrated in just a few market sectors where we've found the greatest value. However, the extreme market weakness has broadened our investment field, enabling us to diversify into stocks and market sectors that rarely fall into our low price-to-earnings valuation zone. Some of the areas where we found the best contrarian opportunities include pharmaceuticals, retailers, computer consultants, diversified financials and industrials — specifically General Electric. While some of our new investments have rebounded, others continue to struggle. In each case, however, we remain enthusiastic. This is a great time for contrarian investors.

Our outlook has not changed much. We expect slow to moderate economic growth over the next several years. Valuations in the market remain high when compared with historic levels, which suggests to us that there is little room for large gains by the overall market. We expect returns over the next five years to be under 10 percent annually. This environment should continue to offer contrarian investors, like us, solid investment opportunities.

David N. Dreman

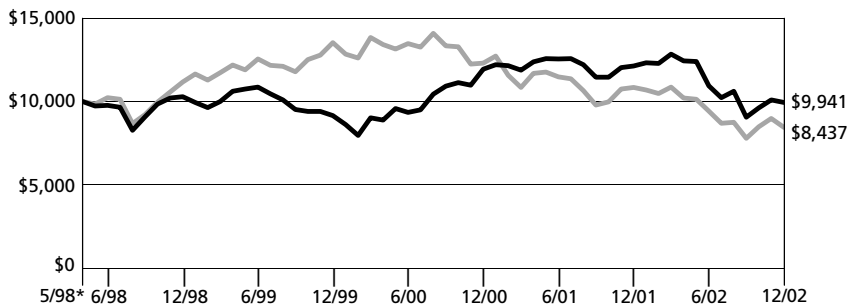
F. James Hutchinson

Co-Managers

Dreman Value Management LLC, Subadvisor to the Portfolio

### Growth of an Assumed \$10,000 Investment in SVS Dreman High Return Equity Portfolio from 5/4/1998 to 12/31/2002

- SVS Dreman High Return Equity Portfolio — Class A
- S&P 500 Index



The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index.

### Average Annual Total Returns<sup>1</sup>

SVS Dreman High Return Equity Portfolio	1-Year	3-Year	Life of Portfolio <sup>2</sup>
Class A	-18.03%	2.85%	-.13% (Since 5/4/1998)*

\* The Portfolio commenced operations on May 4, 1998. Index returns begin April 30, 1998.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## SVS Dreman High Return Equity Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 96.3%</b>					
<b>Consumer Discretionary 11.2%</b>					
<b>Automobiles 0.6%</b>					
Ford Motor Co.	345,000	3,208,500			
<b>Multiline Retail 0.7%</b>					
Federated Department Stores, Inc.*	129,505	3,724,564			
<b>Specialty Retail 9.9%</b>					
Best Buy Co., Inc.*	560,350	13,532,453			
Borders Group, Inc.*	727,950	11,719,995			
Staples, Inc.*	695,565	12,728,840			
The Gap, Inc.	772,225	11,984,932			
Toys "R" Us, Inc.*	41,695	416,950			
		<b>50,383,170</b>			
<b>Consumer Staples 22.5%</b>					
<b>Food &amp; Drug Retailing 1.1%</b>					
Safeway, Inc.*	232,650	5,434,704			
<b>Tobacco 21.4%</b>					
Imperial Tobacco Group (ADR)	95,145	3,187,357			
Philip Morris Companies, Inc.	1,192,320	48,324,730			
R.J. Reynolds Tobacco Holdings, Inc.	527,423	22,209,783			
Universal Corp.	266,570	9,852,427			
UST, Inc.	772,140	25,812,640			
		<b>109,386,937</b>			
<b>Energy 9.8%</b>					
<b>Energy Equipment &amp; Services 0.7%</b>					
Transocean Sedco Forex, Inc.	154,200	3,577,440			
<b>Oil &amp; Gas 9.1%</b>					
ChevronTexaco Corp.	227,105	15,097,950			
ConocoPhillips	416,823	20,170,065			
Devon Energy Corp.	127,075	5,832,743			
Kerr-McGee Corp.	120,300	5,329,290			
		<b>46,430,048</b>			
<b>Financials 27.1%</b>					
<b>Banks 14.2%</b>					
Bank of America Corp.	92,700	6,449,139			
Bank One Corp.	100,655	3,678,940			
FleetBoston Financial Corp.	174,413	4,238,236			
J.P. Morgan Chase & Co.	429,740	10,313,760			
KeyCorp.	335,280	8,428,939			
PNC Financial Services Group	190,184	7,968,710			
Wachovia Corp.	140,000	5,101,600			
Washington Mutual, Inc.	762,575	26,331,715			
		<b>72,511,039</b>			
<b>Diversified Financials 11.6%</b>					
CIT Group, Inc.	89,100	1,746,360			
Fannie Mae	420,873	27,074,760			
Freddie Mac	517,141	30,537,176			
		<b>59,358,296</b>			
<b>Insurance 1.3%</b>					
Ohio Casualty Corp.*	41,055	531,662			
Safeco Corp.	80,815	2,801,856			
St. Paul Companies, Inc.	98,405	3,350,690			
		<b>6,684,208</b>			
<b>Health Care 13.7%</b>					
<b>Health Care Providers &amp; Services 0.7%</b>					
Humana, Inc.*	369,730	3,697,300			
<b>Pharmaceuticals 13.0%</b>					
Bristol-Myers Squibb Co.	1,012,060	23,429,189			
Merck & Co., Inc.	411,020	23,267,842			
Pharmacia Corp.	11,772	492,070			
Schering-Plough Corp.	858,215	19,052,373			
		<b>66,241,474</b>			
<b>Industrials 5.2%</b>					
<b>Electrical Equipment 1.7%</b>					
Emerson Electric Co.	172,600	8,776,710			
<b>Industrial Conglomerates 3.5%</b>					
General Electric Co.	209,350	5,097,672			
Tyco International Ltd.	733,650	12,530,742			
		<b>17,628,414</b>			
<b>Information Technology 5.0%</b>					
<b>Computers &amp; Peripherals 0.7%</b>					
Apple Computer, Inc.*	259,125	3,713,261			
<b>IT Consulting &amp; Services 4.3%</b>					
Electronic Data Systems Corp.	1,198,640	22,090,935			
<b>Utilities 1.8%</b>					
<b>Gas Utilities 1.2%</b>					
El Paso Corp.	846,510	5,891,710			
NiSource, Inc.*	43,220	95,948			
		<b>5,987,658</b>			
<b>Multi-Utilities &amp; Unregulated Power 0.6%</b>					
Williams Companies, Inc.	1,208,850	3,263,895			
		<b>492,098,553</b>			
<b>Convertible Preferred Stocks 0.1%</b>					
<b>Financials</b>					
<b>Real Estate</b>					
Corrections Corp. of America (PIK) (Cost \$255,289)	14,526	363,150			
<b>Cash Equivalents 3.6%</b>					
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$18,338,052)	18,338,052	18,338,052			
		<b>510,799,755</b>			
<b>Total Investment Portfolio — 100.0%</b> (Cost \$584,533,512) (a)					

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

## Notes to SVS Dreman High Return Equity Portfolio of Investments

\* *Non-income producing security.*

(a) *The cost for federal income tax purposes was \$585,770,697. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$74,970,942. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$20,287,143 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$95,258,085.*

(b) *Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

*PIK denotes that interest or dividends are paid in kind.*

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$584,533,512)	\$ 510,799,755
Receivable for investments sold	368,075
Dividends receivable	2,093,398
Interest receivable	24,478
Receivable for Portfolio shares sold	78,140
Other assets	7,988
<b>Total assets</b>	<b>513,371,834</b>

### Liabilities

Payable for investments purchased	391,548
Payable for Portfolio shares redeemed	369,733
Accrued management fee	320,515
Other accrued expenses and payables	119,890
<b>Total liabilities</b>	<b>1,201,686</b>
<b>Net assets, at value</b>	<b>\$ 512,170,148</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	11,106,811
Net unrealized appreciation (depreciation) on investments	(73,733,757)
Accumulated net realized gain (loss)	(42,508,430)
Paid-in capital	617,305,524
<b>Net assets, at value</b>	<b>\$ 512,170,148</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$509,972,878 ÷ 58,214,359 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 8.76</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$2,197,270 ÷ 251,123 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 8.75</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$19,877)	\$ 15,075,322
Interest	621,919
<b>Total Income</b>	<b>15,697,241</b>
Expenses:	
Management fee	3,846,139
Custodian and accounting fees	117,894
Distribution service fees	426
Auditing	77,789
Legal	6,352
Trustees' fees and expenses	6,298
Reports to shareholders	62,957
Other	25,429
<b>Total expenses, before expense reductions</b>	<b>4,143,284</b>
Expense reductions	(465)
<b>Total expenses, after expense reductions</b>	<b>4,142,819</b>
<b>Net investment income (loss)</b>	<b>11,554,422</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(35,594,574)
Futures	(4,742,236)
	(40,336,810)
Net unrealized appreciation (depreciation) during the period on:	
Investments	(84,477,840)
Futures	(213,120)
	(84,690,960)
<b>Net gain (loss) on investment transactions</b>	<b>(125,027,770)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (113,473,348)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 11,554,422	\$ 4,856,646
Net realized gain (loss) on investment transactions	(40,336,810)	1,147,360
Net unrealized appreciation (depreciation) on investment transactions during the period	(84,690,960)	(2,441,513)
Net increase (decrease) in net assets resulting from operations	(113,473,348)	3,562,493
Distributions to shareholders from:		
Net investment income		
Class A	(4,712,145)	(2,559,657)
Net realized gains		
Class A	(1,736,054)	—
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	219,772,034	283,269,260
Reinvestment of distributions	6,448,199	2,559,657
Cost of shares redeemed	(39,721,921)	(11,369,786)
Net increase (decrease) in net assets from Class A share transactions	186,498,312	274,459,131
<b>Class B*</b>		
Proceeds from shares sold	2,209,191	—
Cost of shares redeemed	(12,261)	—
Net increase (decrease) in net assets from Class B share transactions	2,196,930	—
<b>Increase (decrease) in net assets</b>	<b>68,773,695</b>	<b>275,461,967</b>
Net assets at beginning of period	443,396,453	167,934,486
Net assets at end of period (including undistributed net investment income of \$11,106,811 and \$4,477,378, respectively)	<b>\$ 512,170,148</b>	<b>\$ 443,396,453</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	41,005,810	15,588,218
Shares sold	21,036,800	26,260,433
Shares issued to shareholders in reinvestment of distributions	569,629	245,103
Shares redeemed	(4,397,880)	(1,087,944)
Net increase (decrease) in Portfolio shares	17,208,549	25,417,592
Shares outstanding at end of period	<b>58,214,359</b>	<b>41,005,810</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	252,553	—
Shares redeemed	(1,430)	—
Net increase (decrease) in Portfolio shares	251,123	—
Shares outstanding at end of period	<b>251,123</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a</sup>	1998 <sup>a,b</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 10.81</b>	<b>\$ 10.77</b>	<b>\$ 8.96</b>	<b>\$ 10.28</b>	<b>\$ 10.00</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.21 <sup>c</sup>	.19 <sup>c</sup>	.26 <sup>c</sup>	.26 <sup>c</sup>	.08
Net realized and unrealized gain (loss) on investment transactions	(2.13)	(.01)	2.25	(1.38)	.20
<b>Total from investment operations</b>	<b>(1.92)</b>	<b>.18</b>	<b>2.51</b>	<b>(1.12)</b>	<b>.28</b>
<i>Less distributions from:</i>					
Net investment income	(.09)	(.14)	(.20)	(.10)	—
Net realized gains on investment transactions	(.04)	—	(.50)	(.10)	—
<b>Total distributions</b>	<b>(.13)</b>	<b>(.14)</b>	<b>(.70)</b>	<b>(.20)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 8.76</b>	<b>\$ 10.81</b>	<b>\$ 10.77</b>	<b>\$ 8.96</b>	<b>\$ 10.28</b>
Total Return (%)	(18.03)	1.69	30.52	(11.16)	2.80 <sup>d**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	510	443	168	113	59
Ratio of expenses before expense reductions (%)	.79	.82	.85	.86	1.20*
Ratio of expenses after expense reductions (%)	.79	.82	.84	.86	.87*
Ratio of net investment income (loss) (%)	2.21	1.78	2.85	2.57	2.77*
Portfolio turnover rate (%)	17	16	37	24	5*

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, have been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> For the period from May 4, 1998 (commencement of operations) to December 31, 1998.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
<b>Net asset value, beginning of period</b>	<b>\$ 9.57</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.18
Net realized and unrealized gain (loss) on investment transactions	(1.00)
<b>Total from investment operations</b>	<b>(.82)</b>
<b>Net asset value, end of period</b>	<b>\$ 8.75</b>
Total Return (%)	(8.57)**
<b>Ratios to Average Net Assets and Supplemental Data</b>	
Net assets, end of period (\$ millions)	2
Ratio of expenses (%)	1.05*
Ratio of net investment income (loss) (%)	4.30*
Portfolio turnover rate (%)	17

<sup>a</sup> For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## SVS Dreman Small Cap Value Portfolio

Dreman Value Management, L.L.C. assumed management of the portfolio in mid-January 2002. Since then, we have completed a restructuring, which reduced total holdings to about 120 names from about 330. In 2002, the portfolio lost ground but fell less than its benchmark, the Russell 2000 Value Index, which measures the performance of small companies with lower price-to-book ratios and lower price-to-earnings ratios than the overall small-cap market.

While volatility can be unsettling, the market environment provided a great opportunity for us to deploy our contrarian value investment strategy. We found many stocks that were trading at what we believed to be unsustainably low prices. Some of the areas that we're most enthusiastic about are energy, banks, health care and utility stocks. In energy, we've focused on companies with large reserves of North American natural gas. These stocks have gained ground, and with supply declining, we anticipate continued strong performance. We also created a substantial position in small regional banks with strong loan portfolios and few credit problems. The position added greatly to returns this year as the banks continued to grow earnings and pay attractive dividend yields. We recently created a position in hospital and provider stocks that have been battered due to uncertainty surrounding Medicare reimbursements — which we see as a temporary setback. While the portfolio's utility stocks — primarily independent power producers — hurt performance this year, we believe that over time they will bounce back as their liquidity issues are resolved. The utility stocks we own have significant underlying assets and we believe offer strong future earnings potential.

We look for continued market volatility. And while we believe the economy has begun to recover, we don't anticipate a quick turnaround. In our opinion, however, the valuation characteristics for small value stocks remain favorable.

David N. Dreman

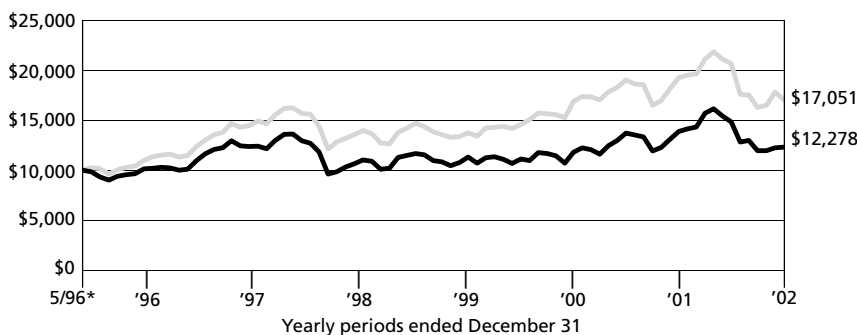
Nelson Woodard

Co-Managers

Dreman Value Management, L.L.C., Subadvisor to the Portfolio

### Growth of an Assumed \$10,000 Investment in SVS Dreman Small Cap Value Portfolio from 5/1/1996 to 12/31/2002

- SVS Dreman Small Cap Value Portfolio — Class A
- Russell 2000 Value Index



The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index.

### Average Annual Total Returns<sup>1</sup>

SVS Dreman Small Cap Value Portfolio	1-Year	3-Year	5-Year	Life of Portfolio
Class A	-11.43%	2.77%	-.20%	3.13% (Since 5/1/1996)*

\* The Portfolio commenced operations on May 1, 1996. Index returns begin April 30, 1996.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.





	Shares	Value (\$)
Highwoods Properties, Inc. (REIT)	87,500	1,933,750
HRPT Properties Trust (REIT)	154,400	1,272,256
Prentiss Properties Trust (REIT)	95,000	2,686,600
Redwood Trust, Inc. (REIT)	69,400	1,922,380
Sovran Self Storage, Inc. (REIT)	4,600	130,456
		<b>22,218,718</b>
<b>Health Care 9.0%</b>		
<b>Biotechnology 1.1%</b>		
Nabi Biopharmaceuticals*	152,250	943,950
Serologicals Corp.*	156,100	1,717,100
		<b>2,661,050</b>
<b>Health Care Equipment &amp; Supplies 0.9%</b>		
Conmed Corp.*	81,400	1,594,626
Polymedica Industries, Inc.*	26,000	801,840
		<b>2,396,466</b>
<b>Health Care Providers &amp; Services 7.0%</b>		
Coventry Health Care, Inc.*	62,900	1,825,987
Dynacq International, Inc.*	66,700	958,346
HEALTHSOUTH Corp.*	938,200	3,940,440
Oxford Health Plans*	51,100	1,862,595
Pediatrix Medical Group, Inc.*	48,300	1,934,898
RehabCare Group, Inc.*	149,000	2,842,920
Triad Hospitals, Inc.*	89,470	2,668,890
US Oncology, Inc.*	166,700	1,445,289
		<b>17,479,365</b>
<b>Industrials 10.9%</b>		
<b>Aerospace &amp; Defense 4.6%</b>		
Curtiss-Wright Corp.	48,900	3,120,798
Kaman Corp. "A"	217,500	2,392,500
Moog, Inc. "A"*	104,900	3,256,096
Precision Castparts Corp.	116,100	2,815,425
		<b>11,584,819</b>
<b>Building Products 0.6%</b>		
York International Corp.	55,300	1,414,021
<b>Commercial Services &amp; Supplies 1.6%</b>		
Consolidated Graphics, Inc.*	57,800	1,286,050
John H. Harland Co.	40,600	898,478
United Stationers, Inc.*	64,500	1,857,665
		<b>4,042,193</b>
<b>Construction &amp; Engineering 0.7%</b>		
EMCOR Group, Inc.*	31,100	1,648,611
<b>Electrical Equipment 0.3%</b>		
Genlyte Group, Inc.*	22,900	713,564
<b>Machinery 1.2%</b>		
Harsco Corp.	44,400	1,415,916
Oshkosh Truck Corp.	26,050	1,602,075
		<b>3,017,991</b>
<b>Road &amp; Rail 1.9%</b>		
Arkansas Best Corp.*	116,700	3,031,983
Roadway Corp.	48,800	1,796,328
		<b>4,828,311</b>
<b>Trading Companies &amp; Distributors 0.0%</b>		
Vialta, Inc.*	150	46

	Shares	Value (\$)
<b>Information Technology 3.6%</b>		
<b>Computers &amp; Peripherals 0.8%</b>		
ATI Technologies, Inc.*	104,300	485,099
Imation Corp.*	43,500	1,525,980
		<b>2,011,079</b>
<b>Electronic Equipment &amp; Instruments 0.6%</b>		
Anixter International, Inc.*	38,900	904,425
Checkpoint Systems, Inc.*	58,200	601,788
		<b>1,506,213</b>
<b>IT Consulting &amp; Services 0.7%</b>		
CACI International, Inc. "A"*	48,300	1,721,412
<b>Office Electronics 0.8%</b>		
Zebra Technologies Corp. "A"*	35,700	2,045,610
<b>Software 0.7%</b>		
Novell, Inc.*	494,000	1,649,960
<b>Materials 4.0%</b>		
<b>Chemicals 1.0%</b>		
Albermarle Corp.	92,100	2,620,245
<b>Construction Materials 1.0%</b>		
Florida Rock Industries, Inc.	69,130	2,630,397
<b>Containers &amp; Packaging 1.2%</b>		
Greif Brothers Corp. "A"	61,400	1,461,320
Myers Industries, Inc.	136,490	1,460,443
		<b>2,921,763</b>
<b>Metals &amp; Mining 0.8%</b>		
Quanex Corp.	60,100	2,013,350
<b>Utilities 7.7%</b>		
<b>Electric Utilities 1.6%</b>		
CMS Energy Corp.	187,600	1,770,944
WPS Resources Corp.	56,000	2,173,920
		<b>3,944,864</b>
<b>Gas Utilities 2.0%</b>		
Cascade Natural Gas Corp.	49,900	998,000
NUI Corp.	89,700	1,548,222
Peoples Energy Corp.	63,900	2,469,735
		<b>5,015,957</b>
<b>Multi-Utilities &amp; Unregulated Power 4.1%</b>		
Mirant Corp.*	1,748,000	3,303,720
Reliant Resources, Inc.*	1,656,800	5,301,760
Williams Companies, Inc.	647,600	1,748,520
		<b>10,354,000</b>
<b>Total Common Stocks (Cost \$263,043,069)</b>		<b>241,873,504</b>
<b>Cash Equivalents 3.6%</b>		
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$9,019,559)	9,019,559	9,019,559
<b>Total Investment Portfolio — 100.0%</b> (Cost \$272,062,628) (a)		<b>250,893,063</b>

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

## Notes to SVS Dreman Small Cap Value Portfolio of Investments

\* *Non-income producing security.*

- (a) *The cost for federal income tax purposes was \$272,511,964. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$21,618,901. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$12,923,120 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$34,542,021.*
- (b) *Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$272,062,628)	\$ 250,893,063
Dividends receivable	615,315
Receivable for Portfolio shares sold	78,710
Other assets	4,418
<b>Total assets</b>	<b>251,591,506</b>

### Liabilities

Payable for Portfolio shares redeemed	112,617
Accrued management fee	160,318
Other accrued expenses and payables	67,598
<b>Total liabilities</b>	<b>340,533</b>
<b>Net assets, at value</b>	<b>\$ 251,250,973</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	3,034,047
Net unrealized appreciation (depreciation) on investments	(21,169,565)
Accumulated net realized gain (loss)	(8,989,437)
Paid-in capital	278,375,928
<b>Net assets, at value</b>	<b>\$ 251,250,973</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$250,100,685 ÷ 21,449,028 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.66</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$1,150,288 ÷ 98,769 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.65</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$1,884)	\$ 5,171,374
Interest	212,665
<b>Total Income</b>	<b>5,384,039</b>
Expenses:	
Management fee	1,932,765
Custodian fees	24,514
Distribution service fees	243
Auditing	36,056
Legal	5,681
Trustees' fees and expenses	2,561
Reports to shareholders	73,030
Other	10,314
<b>Total expenses, before expense reductions</b>	<b>2,085,164</b>
Expense reductions	(1,528)
<b>Total expenses, after expense reductions</b>	<b>2,083,636</b>
<b>Net investment income (loss)</b>	<b>3,300,403</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(5,468,654)
Net unrealized appreciation (depreciation) during the period on investments	(41,748,182)
<b>Net gain (loss) on investment transactions</b>	<b>(47,216,836)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (43,916,433)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 3,300,403	\$ 935,250
Net realized gain (loss) on investment transactions	(5,468,654)	809,129
Net unrealized appreciation (depreciation) on investment transactions during the period	(41,748,182)	19,332,255
Net increase (decrease) in net assets resulting from operations	(43,916,433)	21,076,634
Distributions to shareholders from:		
Net investment income		
Class A	(910,198)	—
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	156,275,072	110,669,303
Reinvestment of distributions	910,198	—
Cost of shares redeemed	(55,977,524)	(21,981,570)
Net increase (decrease) in net assets from Class A share transactions	101,207,746	88,687,733
<b>Class B*</b>		
Proceeds from shares sold	1,139,942	—
Cost of shares redeemed	(4,325)	—
Net increase (decrease) in net assets from Class B share transactions	1,135,617	—
<b>Increase (decrease) in net assets</b>	<b>57,516,732</b>	<b>109,764,367</b>
Net assets at beginning of period	193,734,241	83,969,874
Net assets at end of period (including undistributed net investment income of \$3,034,047 and \$931,611, respectively)	<b>\$ 251,250,973</b>	<b>\$ 193,734,241</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	14,668,207	7,479,350
Shares sold	11,354,873	9,043,257
Shares issued to shareholders in reinvestment of distributions	61,046	—
Shares redeemed	(4,635,098)	(1,854,400)
Net increase (decrease) in Portfolio shares	6,780,821	7,188,857
Shares outstanding at end of period	<b>21,449,028</b>	<b>14,668,207</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	99,146	—
Shares redeemed	(377)	—
Net increase (decrease) in Portfolio shares	98,769	—
Shares outstanding at end of period	<b>98,769</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

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

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a</sup>	1998 <sup>a</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 13.21</b>	<b>\$ 11.23</b>	<b>\$ 10.85</b>	<b>\$ 10.65</b>	<b>\$ 12.27</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.17 <sup>b</sup>	.09 <sup>b</sup>	.02 <sup>b</sup>	.07 <sup>b</sup>	.09
Net realized and unrealized gain (loss) on investment transactions	(1.67)	1.89	.42	.23	(1.41)
<b>Total from investment operations</b>	<b>(1.50)</b>	<b>1.98</b>	<b>.44</b>	<b>.30</b>	<b>(1.32)</b>
<i>Less distributions from:</i>					
Net investment income	(.05)	—	(.06)	(.10)	—
Net realized gains on investment transactions	—	—	—	—	(.30)
<b>Total distributions</b>	<b>(.05)</b>	<b>—</b>	<b>(.06)</b>	<b>(.10)</b>	<b>(.30)</b>
<b>Net asset value, end of period</b>	<b>\$ 11.66</b>	<b>\$ 13.21</b>	<b>\$ 11.23</b>	<b>\$ 10.85</b>	<b>\$ 10.65</b>
Total Return (%)	(11.43)	17.63	4.05	2.80	(11.25)

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	250	194	84	95	102
Ratio of expenses before expense reductions (%)	.81	.79	.82	.84	.80
Ratio of expenses after expense reductions (%)	.81	.79	.82	.83	.80
Ratio of net investment income (loss) (%)	1.28	.77	.15	.69	1.15
Portfolio turnover rate (%)	86	57	36	72	43

<sup>a</sup> On June 18, 2001, the Portfolio implemented 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> Based on average shares outstanding during the period.

## Class B

2002<sup>a</sup>

### Selected Per Share Data

<b>Net asset value, beginning of period</b>	<b>\$ 13.86</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.17
Net realized and unrealized gain (loss) on investment transactions	(2.38)
<b>Total from investment operations</b>	<b>(2.21)</b>
<b>Net asset value, end of period</b>	<b>\$ 11.65</b>
Total Return (%)	(15.95)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	1
Ratio of expenses (%)	1.06*
Ratio of net investment income (loss) (%)	3.01*
Portfolio turnover rate (%)	86

<sup>a</sup> For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## SVS Eagle Focused Large Cap Growth Portfolio

For the year, the portfolio was down (Class A shares) 27.91 percent, while its benchmark, the Russell 1000 Growth Index, declined 27.88 percent.

A weak economy, slowing profits and corporate malfeasance lowered investor confidence and drove every S&P 500 sector down in 2002. Slumping demand and oversupply led to a market correction that brought valuations to more reasonable levels. Nevertheless, the consumer remained resilient, which helped keep the recession mild. Volatility in the market, however, rose to its highest levels since the 1930s, largely due to geopolitical uncertainties.

While nearly every sector of the portfolio finished the year lower, the consumer segment was one of the few outperformers. During the year, we shifted from cyclical consumer stocks to consumer staple stocks, which provided some cushion when consumer spending weakened as a result of the worsening employment picture. Technology stocks were the biggest drag on performance, largely due to the sector's revenue and profit growth slowing. Despite slumping sales in the technology sector, however, our outlook on future corporate technology spending is bullish.

With regard to the overall market, concerns about terrorism and risk of a war with Iraq are creating near-term uncertainty. The fragile economic recovery now under way is clearly at risk if the consumer stops spending. But we believe the recent monetary stimulus coupled with the likely large fiscal stimulus program now working its way through Congress will go a long way toward helping the recovery during 2003.

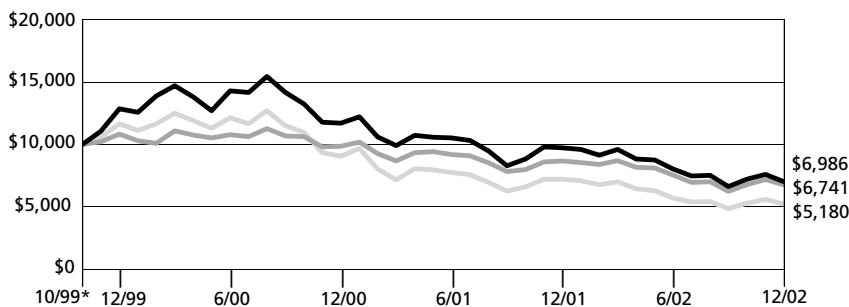
Ashi Parikh

Lead Manager

Eagle Asset Management, Inc., Subadvisor to the Portfolio

### Growth of an Assumed \$10,000 Investment in SVS Eagle Focused Large Cap Growth Portfolio from 10/29/1999 to 12/31/2002

- SVS Eagle Focused Large Cap Growth Portfolio — Class A
- Russell 1000 Growth Index
- S&P 500 Index



The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with greater-than-average growth orientation and represents the universe of stocks from which "earnings/growth" money managers typically select. The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the Russell 1000 Growth Index, which better reflects the Portfolio's investment style, will be shown instead of the S&P 500 Index.

### Average Annual Total Returns<sup>1</sup>

SVS Eagle Focused Large Cap Growth Portfolio	1-Year	3-Year	Life of Portfolio <sup>2</sup>
Class A	-27.91%	-18.36%	-10.69% (Since 10/29/1999)*

\* The Portfolio commenced operations on October 29, 1999. Index returns begin October 31, 1999.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## SVS Eagle Focused Large Cap Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 99.8%</b>					
<b>Consumer Discretionary 16.4%</b>					
<b>Hotel Restaurants &amp; Leisure 1.7%</b>					
Carnival Corp. "A"	41,950	1,046,652			
<b>Media 5.6%</b>					
Clear Channel Communications, Inc.*	38,600	1,439,394			
Viacom, Inc. "B"*	25,700	1,047,532			
Walt Disney Co.	58,750	958,212			
		<b>3,445,138</b>			
<b>Multiline Retail 5.8%</b>					
Target Corp.	37,100	1,113,000			
Wal-Mart Stores, Inc.	49,550	2,502,771			
		<b>3,615,771</b>			
<b>Specialty Retail 3.3%</b>					
Home Depot, Inc.	86,825	2,080,327			
<b>Consumer Staples 6.0%</b>					
<b>Beverages 3.7%</b>					
Anheuser-Busch Companies, Inc.	48,100	2,328,040			
<b>Household Products 2.3%</b>					
Colgate-Palmolive Co.	27,700	1,452,311			
<b>Financials 19.0%</b>					
<b>Diversified Financials 15.9%</b>					
American Express Co.	52,000	1,838,200			
Citigroup, Inc.	48,716	1,714,316			
Freddie Mac	41,850	2,471,243			
Goldman Sachs Group, Inc.	24,500	1,668,450			
Lehman Brothers Holdings, Inc.	26,400	1,406,856			
Merrill Lynch & Co., Inc.	21,500	815,925			
		<b>9,914,990</b>			
<b>Insurance 3.1%</b>					
Hartford Financial Services Group, Inc.	18,150	824,555			
Travelers Property Casualty Corp.*	73,748	1,080,408			
		<b>1,904,963</b>			
<b>Health Care 20.8%</b>					
<b>Health Care Equipment &amp; Supplies 1.2%</b>					
Baxter International, Inc.*	27,300	764,400			
<b>Health Care Providers &amp; Services 3.3%</b>					
HCA, Inc.	23,050	956,575			
UnitedHealth Group, Inc.	12,700	1,060,450			
		<b>2,017,025</b>			
<b>Pharmaceuticals 16.3%</b>					
Eli Lilly & Co.	18,250	1,158,875			
Johnson & Johnson	47,300	2,540,483			
Merck & Co., Inc.	34,900	1,975,689			
Pfizer, Inc.	98,900	3,023,373			
Wyeth	38,400	1,436,160			
		<b>10,134,580</b>			
<b>Industrials 14.2%</b>					
<b>Aerospace &amp; Defense 6.5%</b>					
Lockheed Martin Corp.	40,100	2,315,775			
Raytheon Co.	54,950	1,689,713			
		<b>4,005,488</b>			
<b>Air Freight &amp; Logistics 2.1%</b>					
United Parcel Service, Inc. "B"	21,100	1,330,988			
<b>Commercial Services &amp; Supplies 1.4%</b>					
First Data Corp.	25,250	894,102			
<b>Industrial Conglomerates 4.2%</b>					
3M Co.	5,750	708,975			
General Electric Co.	77,100	1,877,385			
		<b>2,586,360</b>			
<b>Information Technology 23.4%</b>					
<b>Communications Equipment 3.3%</b>					
Cisco Systems, Inc.*	158,750	2,079,625			
<b>Computers &amp; Peripherals 5.2%</b>					
Dell Computer Corp.*	62,400	1,668,576			
EMC Corp.*	100,650	617,991			
Hewlett-Packard Co.	54,300	942,648			
		<b>3,229,215</b>			
<b>Semiconductor Equipment &amp; Products 5.4%</b>					
Intel Corp.	128,900	2,006,973			
Texas Instruments, Inc.	89,500	1,343,395			
		<b>3,350,368</b>			
<b>Software 9.5%</b>					
Intuit, Inc.*	27,750	1,302,030			
Microsoft Corp.*	80,400	4,156,680			
Oracle Corp.*	39,400	425,520			
		<b>5,884,230</b>			
<b>Total Common Stocks (Cost \$66,005,313)</b>					<b>62,064,573</b>
<b>Cash Equivalents 0.2%</b>					
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$113,364)	113,364	113,364			
<b>Total Investment Portfolio — 100.0%</b> (Cost \$66,118,677) (a)					<b>62,177,937</b>

## Notes to SVS Eagle Focused Large Cap Growth Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$70,212,301. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$8,034,364. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$252,688 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$8,287,052.
- (b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$66,118,677)	\$ 62,177,937
Cash	10,000
Receivable for investments sold	762,058
Dividends receivable	71,120
Interest receivable	2,036
Receivable for Portfolio shares sold	14,574
<b>Total assets</b>	<b>63,037,725</b>

### Liabilities

Payable for investments purchased	391,457
Payable for Portfolio shares redeemed	472
Accrued management fee	59,564
Other accrued expenses and payables	21,572
<b>Total liabilities</b>	<b>473,065</b>
<b>Net assets, at value</b>	<b>\$ 62,564,660</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	(291)
Net unrealized appreciation (depreciation) on investments	(3,940,740)
Accumulated net realized gain (loss)	(28,173,542)
Paid-in capital	94,679,233
<b>Net assets, at value</b>	<b>\$ 62,564,660</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$62,040,292 ÷ 9,100,995 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 6.82</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$524,368 ÷ 77,032 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 6.81</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$3,114)	\$ 580,502
Interest	55,043
<b>Total Income</b>	<b>635,545</b>
Expenses:	
Management fee	629,622
Custodian and accounting fees	29,528
Distribution service fees	119
Auditing	11,437
Legal	1,273
Trustees' fees and expenses	548
Reports to shareholders	8,283
Other	2,445
<b>Total expenses, before expense reductions</b>	<b>683,255</b>
Expense reductions	(145)
<b>Total expenses, after expense reductions</b>	<b>683,110</b>
<b>Net investment income (loss)</b>	<b>(47,565)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(17,302,199)
Net unrealized appreciation (depreciation) during the period on investments	(5,056,801)
<b>Net gain (loss) on investment transactions</b>	<b>(22,359,000)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (22,406,565)</b>

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



## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ (47,565)	\$ (77,560)
Net realized gain (loss) on investment transactions	(17,302,199)	(8,258,294)
Net unrealized appreciation (depreciation) on investment transactions during the period	(5,056,801)	2,843,040
Net increase (decrease) in net assets resulting from operations	(22,406,565)	(5,492,814)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	35,550,657	40,803,744
Cost of shares redeemed	(11,232,095)	(3,343,405)
Net increase (decrease) in net assets from Class A share transactions	24,318,562	37,460,339
<b>Class B*</b>		
Proceeds from shares sold	545,460	—
Cost of shares redeemed	(492)	—
Net increase (decrease) in net assets from Class B share transactions	544,968	—
<b>Increase (decrease) in net assets</b>	<b>2,456,965</b>	<b>31,967,525</b>
Net assets at beginning of period	60,107,695	28,140,170
Net assets at end of period (including accumulated net investment loss of \$291 at December 31, 2002)	<b>\$ 62,564,660</b>	<b>\$ 60,107,695</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	6,353,061	2,467,850
Shares sold	4,226,797	4,225,617
Shares redeemed	(1,478,863)	(340,406)
Net increase (decrease) in Portfolio shares	2,747,934	3,885,211
Shares outstanding at end of period	<b>9,100,995</b>	<b>6,353,061</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	77,101	—
Shares redeemed	(69)	—
Net increase (decrease) in Portfolio shares	77,032	—
Shares outstanding at end of period	<b>77,032</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a,b</sup>
<b>Selected Per Share Data</b>				
<b>Net asset value, beginning of period</b>	<b>\$ 9.46</b>	<b>\$ 11.40</b>	<b>\$ 12.84</b>	<b>\$ 10.00</b>
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>c</sup>	(.01)	(.02)	(.05)	—
Net realized and unrealized gain (loss) on investment transactions	(2.63)	(1.92)	(1.04)	2.84
<b>Total from investment operations</b>	<b>(2.64)</b>	<b>(1.94)</b>	<b>(1.09)</b>	<b>2.84</b>
<i>Less distributions from:</i>				
Net realized gains on investment transactions	—	—	(.35)	—
<b>Total distributions</b>	<b>—</b>	<b>—</b>	<b>(.35)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 6.82</b>	<b>\$ 9.46</b>	<b>\$ 11.40</b>	<b>\$ 12.84</b>
Total Return (%)	(27.91)	(17.02)	(9.02) <sup>d</sup>	28.40 <sup>d**</sup>

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	62	60	28	3
Ratio of expenses before expense reductions (%)	1.03	1.13	1.33	7.49*
Ratio of expenses after expense reductions (%)	1.03	1.11	1.02	1.10*
Ratio of net investment income (loss) (%)	(.08)	(.21)	(.37)	(.19)*
Portfolio turnover rate (%)	123	98	323	336*

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> For the period from October 29, 1999 (commencement of operations) to December 31, 1999.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

2002<sup>a</sup>

## Selected Per Share Data

<b>Net asset value, beginning of period</b>	<b>\$ 7.61</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.01
Net realized and unrealized gain (loss) on investment transactions	(.81)
<b>Total from investment operations</b>	<b>(.80)</b>
<b>Net asset value, end of period</b>	<b>\$ 6.81</b>
Total Return (%)	(10.51)**

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.5
Ratio of expenses (%)	1.30*
Ratio of net investment income (loss) (%)	.21*
Portfolio turnover rate (%)	123

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## SVS Focus Value+Growth Portfolio

The stock market endured its third straight year of losses in 2002. Scudder Focus Value+Growth Portfolio also lost ground. In April, Dreman Value Management, a firm specializing in contrarian value investing (buying out-of-favor stocks), took over management of the value portfolio. The value managers used market weakness to build a portfolio of stocks beaten down by investor overreaction. The selection process led to concentrations in three market segments — financials, primarily Fannie Mae and Freddie Mac; health care, primarily pharmaceutical stocks; and tobacco stocks, primarily Philip Morris and UST. Portfolio Manager David Dreman is enthusiastic about the portfolio. He believes that when the market turns, this lineup offers the potential for strong performance. In the meantime, the stocks are paying attractive dividends.

Concentration in the growth portfolio remains in consumer stocks, information technology, health care and financials. Consumer discretionary stocks provided the strongest performance. Strong stock selection in technology also helped relative performance. On the negative side, health care and financials were among the hardest hit.

Both management teams — Dreman Value Management and Jennison Associates — believe that the economy has begun to recover, but don't expect a quick bounce-back. We will continue to stay disciplined and focused on looking for stocks that are consistent with their investment philosophies and offer strong long-term potential for reward.

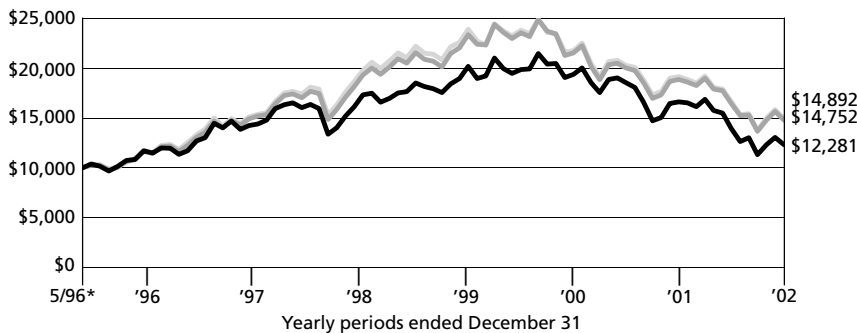
David N. Dreman  
Lead Manager

F. James Hutchinson  
Portfolio Manager  
Dreman Value Management LLC  
(Subadvisor for the Value Portion of the Portfolio)

Spiros Segalas  
Kathleen McCarragher  
Co-Managers  
Jennison Associates LLC  
(Subadvisor for the Growth Portion of the Portfolio)

### Growth of an Assumed \$10,000 Investment in SVS Focus Value+Growth Portfolio from 5/1/1996 to 12/31/2002

- SVS Focus Value+Growth Portfolio — Class A
- S&P 500 Index
- Russell 1000 Index



The Standard & Poor's (S&P) 500 Index is a 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. The Russell 1000 Index is an unmanaged capitalization-weighted price-only index composed of the largest-capitalized United States companies whose common stocks are traded in the US. This larger capitalization, market-oriented index is highly correlated with the S&P 500 Stock Index. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the S&P 500 Index, which better reflects the Portfolio's investment style, will be shown instead of the Russell 1000 Index.

### Average Annual Total Returns<sup>1</sup>

SVS Focus Value+Growth Portfolio	1-Year	3-Year	5-Year	Life of Portfolio
Class A	-25.89%	-15.19%	-3.10%	3.13% (Since 5/1/1996)*

\* The Portfolio commenced operations on May 1, 1996. Index returns begin April 30, 1996.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## SVS Focus Value+Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 99.5%</b>					
<b>Consumer Discretionary 16.1%</b>					
<b>Automobiles 2.9%</b>					
Harley-Davidson, Inc.	61,000	2,818,200			
<b>Hotel Restaurants &amp; Leisure 2.5%</b>					
Marriott International, Inc. "A"	76,000	2,498,120			
<b>Media 3.1%</b>					
Viacom, Inc. "B"*	74,200	3,024,392			
<b>Multiline Retail 2.5%</b>					
Kohl's Corp.*	44,300	2,478,585			
<b>Specialty Retail 5.1%</b>					
Best Buy Co., Inc.*	41,890	1,011,644			
Borders Group, Inc.*	33,850	544,985			
Staples, Inc.*	68,300	1,249,890			
Tiffany & Co.	89,600	2,142,336			
		<b>4,948,855</b>			
<b>Consumer Staples 11.0%</b>					
<b>Beverages 2.1%</b>					
Coca-Cola Co.	47,900	2,098,978			
<b>Tobacco 8.9%</b>					
Philip Morris Companies, Inc.	106,300	4,308,339			
R.J. Reynolds Tobacco Holdings, Inc.	21,400	901,154			
UST, Inc.	103,820	3,470,703			
		<b>8,680,196</b>			
<b>Energy 5.7%</b>					
<b>Energy Equipment &amp; Services 3.4%</b>					
BJ Services Co.*	102,300	3,305,313			
<b>Oil &amp; Gas 2.3%</b>					
Devon Energy Corp.	34,295	1,574,141			
Kerr-McGee Corp.	16,550	733,165			
		<b>2,307,306</b>			
<b>Financials 25.4%</b>					
<b>Banks 7.0%</b>					
FleetBoston Financial Corp.	47,000	1,142,100			
J.P. Morgan Chase & Co.	84,300	2,023,200			
PNC Financial Services Group	12,300	515,370			
Washington Mutual, Inc.	91,951	3,175,068			
		<b>6,855,738</b>			
<b>Diversified Financials 15.9%</b>					
Citigroup, Inc.	44,100	1,551,879			
Fannie Mae	83,350	5,361,906			
Freddie Mac	101,750	6,008,337			
Merrill Lynch & Co., Inc.	70,700	2,683,065			
					<b>15,605,187</b>
<b>Insurance 2.5%</b>					
American International Group, Inc.	42,400	2,452,840			
<b>Health Care 19.9%</b>					
<b>Biotechnology 3.6%</b>					
Amgen, Inc.*	72,900	3,523,986			
<b>Pharmaceuticals 16.3%</b>					
Abbott Laboratories	67,500	2,699,997			
Bristol-Myers Squibb Co.	134,050	3,103,258			
Johnson & Johnson	45,400	2,438,434			
Merck & Co., Inc.	60,700	3,436,227			
Pfizer, Inc.	84,700	2,589,279			
Schering-Plough Corp.	74,900	1,662,780			
					<b>15,929,975</b>
<b>Industrials 3.4%</b>					
<b>Industrial Conglomerates</b>					
Tyco International Ltd.	192,850	3,293,878			
<b>Information Technology 16.8%</b>					
<b>Communications Equipment 2.9%</b>					
Cisco Systems, Inc.*	215,500	2,823,050			
<b>Computers &amp; Peripherals 3.5%</b>					
Dell Computer Corp.*	127,300	3,404,002			
<b>IT Consulting &amp; Services 3.2%</b>					
Electronic Data Systems Corp.	171,875	3,167,656			
<b>Semiconductor Equipment &amp; Products 3.8%</b>					
Applied Materials, Inc.*	132,400	1,725,172			
Texas Instruments, Inc.	133,700	2,006,837			
					<b>3,732,009</b>
<b>Software 3.3%</b>					
Microsoft Corp.*	63,200	3,267,440			
<b>Utilities 1.2%</b>					
<b>Gas Utilities 0.9%</b>					
El Paso Corp.	123,635	860,500			
<b>Multi-Utilities &amp; Unregulated Power 0.3%</b>					
Mirant Corp.*	53,850	101,777			
Reliant Resources, Inc.*	54,050	172,960			
					<b>274,737</b>
<b>Total Common Stocks (Cost \$113,648,179)</b>					<b>97,350,943</b>
<b>Cash Equivalents 0.5%</b>					
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$463,574)	463,574	463,574			
<b>Total Investment Portfolio — 100.0%</b> (Cost \$114,111,753) (a)					<b>97,814,517</b>

## Notes to SVS Focus Value+Growth Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$116,739,163. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$18,924,646. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$2,097,847 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$21,022,493.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$114,111,753)	\$ 97,814,517
Cash	10,000
Dividends receivable	209,849
Receivable for Portfolio shares sold	7,138
Other assets	1,617
<b>Total assets</b>	<b>98,043,121</b>

### Liabilities

Payable for Portfolio shares redeemed	170,663
Accrued management fee	70,056
Other accrued expenses and payables	35,903
<b>Total liabilities</b>	<b>276,622</b>
<b>Net assets, at value</b>	<b>\$ 97,766,499</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	818,549
Net unrealized appreciation (depreciation) on investments	(16,297,236)
Accumulated net realized gain (loss)	(33,644,550)
Paid-in capital	146,889,736
<b>Net assets, at value</b>	<b>\$ 97,766,499</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$97,387,853 ÷ 10,089,997 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.65</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$378,646 ÷ 39,304 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.63</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends	\$ 1,785,824
Interest	70,471
<b>Total Income</b>	<b>1,856,295</b>
Expenses:	
Management fee	905,500
Custodian fees	7,822
Distribution service fees	95
Auditing	19,996
Legal	130
Trustees' fees and expenses	2,048
Reports to shareholders	31,803
Other	8,034
<b>Total expenses, before expense reductions</b>	<b>975,428</b>
Expense reductions	(41)
<b>Total expenses, after expense reductions</b>	<b>975,387</b>
<b>Net investment income (loss)</b>	<b>880,908</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(20,649,623)
Net unrealized appreciation (depreciation) during the period on investments	(17,574,809)
<b>Net gain (loss) on investment transactions</b>	<b>(38,224,432)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (37,343,524)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 880,908	\$ 903,862
Net realized gain (loss) on investment transactions	(20,649,623)	(12,799,787)
Net unrealized appreciation (depreciation) on investment transactions during the period	(17,574,809)	(10,442,337)
Net increase (decrease) in net assets resulting from operations	(37,343,524)	(22,338,262)
Distributions to shareholders from:		
Net investment income		
Class A	(658,082)	(914,441)
Net realized gains		
Class A	—	(9,601,639)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	16,876,950	27,203,393
Reinvestment of distributions	658,082	10,516,080
Cost of shares redeemed	(21,961,063)	(18,238,788)
Net increase (decrease) in net assets from Class A share transactions	(4,426,031)	19,480,685
Class B*		
Proceeds from shares sold	389,225	—
Cost of shares redeemed	(409)	—
Net increase (decrease) in net assets from Class B share transactions	388,816	—
<b>Increase (decrease) in net assets</b>	<b>(42,038,821)</b>	<b>(13,373,657)</b>
Net assets at beginning of period	139,805,320	153,178,977
Net assets at end of period (including undistributed net investment income of \$818,549 and \$595,725, respectively)	<b>\$ 97,766,499</b>	<b>\$ 139,805,320</b>

### Other Information

Class A		
Shares outstanding at beginning of period	10,690,065	9,252,858
Shares sold	1,436,043	1,952,649
Shares issued to shareholders in reinvestment of distributions	49,742	768,798
Shares redeemed	(2,085,853)	(1,284,240)
Net increase (decrease) in Portfolio shares	(600,068)	1,437,207
Shares outstanding at end of period	<b>10,089,997</b>	<b>10,690,065</b>
Class B*		
Shares outstanding at beginning of period	—	—
Shares sold	39,344	—
Shares redeemed	(40)	—
Net increase (decrease) in Portfolio shares	39,304	—
Shares outstanding at end of period	<b>39,304</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

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

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a</sup>	1998 <sup>a</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 13.08</b>	<b>\$ 16.55</b>	<b>\$ 18.96</b>	<b>\$ 16.71</b>	<b>\$ 14.25</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss)	.08 <sup>b</sup>	.09 <sup>b</sup>	.12 <sup>b</sup>	.08 <sup>b</sup>	.08
Net realized and unrealized gain (loss) on investment transactions	(3.45)	(2.41)	(.73)	2.62	2.78
<b>Total from investment operations</b>	<b>(3.37)</b>	<b>(2.32)</b>	<b>(.61)</b>	<b>2.70</b>	<b>2.86</b>
<i>Less distributions from:</i>					
Net investment income	(.06)	(.10)	(.10)	(.10)	—
Net realized gains on investment transactions	—	(1.05)	(1.70)	(.35)	(.40)
<b>Total distributions</b>	<b>(.06)</b>	<b>(1.15)</b>	<b>(1.80)</b>	<b>(.45)</b>	<b>(.40)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.65</b>	<b>\$ 13.08</b>	<b>\$ 16.55</b>	<b>\$ 18.96</b>	<b>\$ 16.71</b>
Total Return (%)	(25.89)	(14.35)	(3.90)	16.52	20.17

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	97	140	153	172	152
Ratio of expenses before expense reductions (%)	.81	.79	.81	.83	.78
Ratio of expenses after expense reductions (%)	.81	.79	.81	.82	.78
Ratio of net investment income (loss) (%)	.73	.64	.66	.46	.80
Portfolio turnover rate (%)	109	180	39	102	102

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to June 30, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> Based on average shares outstanding during the period.

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
<b>Net asset value, beginning of period</b>	<b>\$ 10.74</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.08
Net realized and unrealized gain (loss) on investment transactions	(1.19)
<b>Total from investment operations</b>	<b>(1.11)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.63</b>
Total Return (%)	(10.34)**

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.4
Ratio of expenses (%)	1.06*
Ratio of net investment income (loss) (%)	1.64*
Portfolio turnover rate (%)	109

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## SVS Index 500 Portfolio

US equities declined for the third consecutive year, something that has not occurred in more than 60 years.

In the aftermath of Enron's collapse, a credit crunch affected many companies associated with aggressive accounting practices, including some of the information technology and telecommunications leaders of the late 1990s. Ongoing threats of terrorism, geopolitical instability and questions about the reliability of corporate earnings reports hung over the markets. For calendar year 2002, all sectors of the S&P 500 Index produced negative returns. Information technology and telecommunications services led the decline. Consumer staples, materials, energy, financials and health care each declined, but outperformed the S&P 500 Index as a whole. Interestingly, during the fourth quarter, sector performance was positive across the board, with telecommunications services and information technology providing the best performance.

As managers of an index portfolio, which seeks to replicate as closely as possible (before deduction of expenses) the broad diversification and returns of the S&P 500 Index, we neither evaluate short-term fluctuations in performance nor manage according to a given outlook for the equity markets or the economy in general. Still, we will continue monitoring economic conditions and how they affect the financial markets, as we seek to closely track the performance of the stock market.

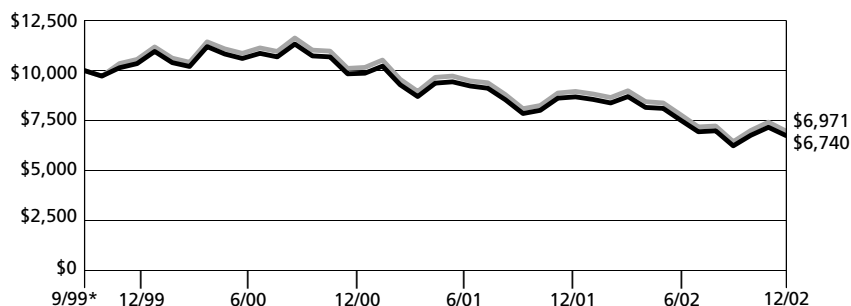
Patrick Cannon

Lead Manager

Deutsche Investment Management Americas Inc.

### Growth of an Assumed \$10,000 Investment in SVS Index 500 Portfolio from 9/1/1999 to 12/31/2002

- SVS Index 500 Portfolio — Class A
- S&P 500 Index



The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index.

### Average Annual Total Returns<sup>1</sup>

SVS Index 500 Portfolio	1-Year	3-Year	Life of Portfolio <sup>2</sup>
Class A	-22.34%	-14.95%	-11.17% (Since 9/1/1999)*

\* The Portfolio commenced operations on September 1, 1999. Index returns begin August 31, 1999.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower. Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.





	Shares	Value (\$)		Shares	Value (\$)
VF Corp.	2,421	87,277	Nabors Industries Ltd.*	4,698	165,698
		<b>898,757</b>	Noble Corp.*	4,200	147,630
<b>Consumer Staples 9.7%</b>			Rowan Companies, Inc.	3,577	81,198
<b>Beverages 3.0%</b>			Schlumberger Ltd.	16,121	678,533
Adolph Coors Co. "B"	1,268	77,665	Transocean Sedco Forex, Inc.	8,024	186,157
Anheuser-Busch Companies, Inc.	24,418	1,181,831			<b>1,920,576</b>
Brown-Forman Corp. "B"	1,590	103,922	<b>Oil &amp; Gas 5.1%</b>		
Coca-Cola Co.	70,656	3,096,146	Amerada Hess Corp.	2,676	147,314
Coca-Cola Enterprises, Inc.	13,576	294,871	Anadarko Petroleum Corp.	7,488	358,675
Pepsi Bottling Group, Inc.	7,800	200,460	Apache Corp.	3,844	219,087
PepsiCo, Inc.	49,273	2,080,306	Ashland, Inc.	1,415	40,370
		<b>7,035,201</b>	Burlington Resources, Inc.	6,314	269,292
<b>Food &amp; Drug Retailing 1.2%</b>			ChevronTexaco Corp.	30,653	2,037,784
Albertson's, Inc.	10,804	240,497	ConocoPhillips	19,082	923,390
CVS Corp.	11,384	284,258	Devon Energy Corp.	4,131	189,613
Kroger Co.*	22,089	341,275	EOG Resources, Inc.	3,139	125,309
Safeway, Inc.*	12,571	293,659	Exxon Mobil Corp.	191,956	6,706,943
Supervalu, Inc.	2,770	45,733	Kerr-McGee Corp.	2,470	109,421
Sysco Corp.	19,224	572,683	Marathon Oil Corp.	9,022	192,078
Walgreen Co.	29,279	854,654	Occidental Petroleum Corp.	11,835	336,706
Winn-Dixie Stores, Inc.	3,957	60,463	Sunoco, Inc.	2,102	69,744
		<b>2,693,222</b>	Unocal Corp.	6,959	212,806
<b>Food Products 1.6%</b>					<b>11,938,532</b>
Archer Daniels Midland Co.	17,171	212,920	<b>Financials 20.2%</b>		
Campbell Soup Co.	10,799	253,453	<b>Banks 7.9%</b>		
ConAgra Foods, Inc.	16,122	403,211	AmSouth Bancorp.	9,145	175,584
Del Monte Foods Co.*	34	262	Bank of America Corp.	42,659	2,967,787
General Mills, Inc.	10,527	494,243	Bank of New York Co., Inc.	20,279	485,885
H.J. Heinz Co.	9,959	327,352	Bank One Corp.	33,262	1,215,726
Hershey Foods Corp.	3,876	261,397	BB&T Corp.	14,142	523,113
Kellogg Co.	12,282	420,904	Charter One Financial, Inc.	6,790	195,077
McDonald's Corp.	36,638	589,139	Comerica, Inc.	4,946	213,865
Sara Lee Corp.	23,406	526,869	Fifth Third Bancorp.	16,724	979,190
Wm Wrigley Jr. Co.	6,070	333,122	First Tennessee National Corp.	3,600	129,384
		<b>3,822,872</b>	FleetBoston Financial Corp.	29,980	728,514
<b>Household Products 2.1%</b>			Golden West Financial Corp.	4,403	316,179
Clorox Co.	7,130	294,113	Huntington Bancshares, Inc.	5,710	106,834
Colgate-Palmolive Co.	15,451	810,096	J.P. Morgan Chase & Co.	56,348	1,352,352
Kimberly-Clark Corp.	14,881	706,401	KeyCorp.	13,360	335,870
Procter & Gamble Co.	37,091	3,187,601	Marshall & Ilsley Corp.	5,200	142,376
		<b>4,998,211</b>	Mellon Financial Corp.	11,517	300,709
<b>Personal Products 0.6%</b>			National City Corp.	18,570	507,332
Alberto-Culver Co. "B"	1,400	70,560	North Fork Bancorp., Inc.	4,500	151,830
Avon Products, Inc.	6,353	342,236	Northern Trust Corp.	7,049	247,067
Gillette Co.	30,389	922,610	PNC Financial Services Group	8,837	370,270
		<b>1,335,406</b>	Regions Financial Corp.	5,664	188,951
<b>Tobacco 1.2%</b>			SouthTrust Corp.	10,838	269,324
Philip Morris Companies, Inc.	58,958	2,389,568	SunTrust Banks, Inc.	8,095	460,767
R.J. Reynolds Tobacco Holdings, Inc.	3,000	126,330	Synovus Financial Corp.	7,282	141,271
UST, Inc.	4,411	147,460	Union Planters Corp.	4,926	138,618
		<b>2,663,358</b>	US Bancorp.	54,846	1,163,832
<b>Energy 5.9%</b>			Wachovia Corp.	38,776	1,412,997
<b>Energy Equipment &amp; Services 0.8%</b>			Washington Mutual, Inc.	26,968	931,205
Baker Hughes, Inc.	8,832	284,302	Wells Fargo & Co.	47,916	2,245,823
BJ Services Co.*	4,900	158,319	Zions Bancorp.	3,300	129,852
Halliburton Co.	11,691	218,739			<b>18,527,584</b>

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

	Shares	Value (\$)		Shares	Value (\$)
<b>Diversified Financials 7.0%</b>					
American Express Co.	37,475	1,324,741			
Bear Stearns Companies, Inc.	2,685	159,489			
Capital One Finance Corp.	5,851	173,892			
Charles Schwab Corp.	38,221	414,698			
Citigroup, Inc.	146,488	5,154,913			
Countrywide Financial Corp.	3,631	187,541			
Fannie Mae	28,365	1,824,720			
Franklin Resources, Inc.	7,390	251,851			
Freddie Mac	19,845	1,171,847			
Goldman Sachs Group, Inc.	13,600	926,160			
Household International, Inc.	13,564	377,215			
Lehman Brothers Holdings, Inc.	6,691	356,563			
MBNA Corp.	36,571	695,580			
Merrill Lynch & Co., Inc.	24,399	925,942			
Moody's Corp.	4,494	185,557			
Morgan Stanley	30,934	1,234,885			
Provident Financial Corp.	8,314	53,958			
SLM Corp.	4,343	451,064			
State Street Corp.	8,690	338,910			
Stilwell Financial, Inc.	6,356	83,073			
T. Rowe Price Group, Inc.	4,353	118,750			
		<b>16,411,349</b>			
<b>Insurance 5.0%</b>					
ACE Ltd.	6,900	202,446			
AFLAC, Inc.	14,712	443,125			
Allstate Corp.	20,224	748,086			
AMBAC Financial Group, Inc.	3,067	172,488			
American International Group, Inc.	74,352	4,301,263			
Aon Corp.	8,683	164,022			
Chubb Corp.	5,187	270,761			
Cincinnati Financial Corp.	4,181	156,997			
Hartford Financial Services Group, Inc.	7,064	320,918			
Jefferson-Pilot Corp.	4,273	162,844			
John Hancock Financial Services, Inc.	8,144	227,218			
Lincoln National Corp.	6,101	192,670			
Loews Corp.	5,734	254,934			
Marsh & McLennan Companies, Inc.	15,122	698,788			
MBIA, Inc.	4,825	211,625			
MetLife, Inc.	20,000	540,800			
MGIC Investment Corp.	2,577	106,430			
Principal Financial Group, Inc.	9,600	289,248			
Progressive Corp.	6,011	298,326			
Prudential Financial, Inc.	16,400	520,536			
Safeco Corp.	4,405	152,721			
St. Paul Companies, Inc.	6,742	229,565			
Torchmark Corp.	2,989	109,188			
Travelers Property Casualty Corp. "B"*	28,359	415,459			
UnumProvident Corp.	6,116	107,275			
XL Capital Ltd. "A"	3,600	278,100			
		<b>11,575,833</b>			
<b>Real Estate 0.3%</b>					
Equity Office Properties Trust (REIT)	12,000	299,760			
Equity Residential (REIT)	7,000	172,060			
Plum Creek Timber Co., Inc. (REIT)	4,200	99,120			
Simon Property Group, Inc. (REIT)	5,800	197,606			
		<b>768,546</b>			
<b>Health Care 14.8%</b>					
<b>Biotechnology 1.1%</b>					
Amgen, Inc.*	36,669	1,772,579			
Biogen, Inc.*	4,325	173,260			
Chiron Corp.*	5,900	221,840			
Genzyme Corp. (General Division)*	6,000	177,420			
MedImmune, Inc.*	7,148	194,211			
		<b>2,539,310</b>			
<b>Health Care Equipment &amp; Supplies 1.9%</b>					
Applera Corp. — Applied Biosystems Group	5,441	95,435			
Bausch & Lomb, Inc.	2,082	74,952			
Baxter International, Inc.	16,918	473,704			
Becton, Dickinson & Co.	7,059	216,641			
Biomet, Inc.	8,412	241,088			
Boston Scientific Corp.*	11,977	509,262			
C.R. Bard, Inc.	1,558	90,364			
Guidant Corp.*	8,367	258,122			
Medtronic, Inc.	34,473	1,571,969			
St. Jude Medical, Inc.*	4,830	191,848			
Stryker Corp.	5,899	395,941			
Zimmer Holdings, Inc.*	5,373	223,087			
		<b>4,342,413</b>			
<b>Health Care Providers &amp; Services 1.8%</b>					
Aetna, Inc.	3,850	158,312			
AmerisourceBergen Corp.	2,944	159,889			
Anthem, Inc.*	4,004	251,852			
Cardinal Health, Inc.	12,631	747,629			
CIGNA Corp.	4,384	180,270			
HCA, Inc.	15,121	627,522			
Health Management Associates, Inc.	6,400	114,560			
HEALTHSOUTH Corp.*	13,735	57,687			
Humana, Inc.*	4,500	45,000			
IMS Health, Inc.	7,516	120,256			
Manor Care, Inc.*	3,138	58,398			
McKesson Corp.	7,990	215,970			
Quest Diagnostics, Inc.*	2,691	153,118			
Quintiles Transnational Corp.*	3,611	43,693			
Tenet Healthcare Corp.*	14,422	236,521			
UnitedHealth Group, Inc.	8,524	711,754			
Wellpoint Health Networks, Inc.*	4,014	285,636			
		<b>4,168,067</b>			
<b>Pharmaceuticals 10.0%</b>					
Abbott Laboratories	44,682	1,787,280			
Allergan, Inc.	3,591	206,913			
Bristol-Myers Squibb Co.	55,431	1,283,228			
Eli Lilly & Co.	32,065	2,036,128			
Forest Laboratories, Inc.*	5,010	492,082			
Johnson & Johnson	84,744	4,551,600			
King Pharmaceuticals, Inc.	6,498	111,701			
Merck & Co., Inc.	64,009	3,623,549			
Pfizer, Inc.	175,723	5,371,852			
Pharmacia Corp.	37,005	1,546,809			
Schering-Plough Corp.	42,347	940,103			
Watson Pharmaceuticals, Inc.*	2,750	77,743			
Wyeth	38,153	1,426,922			
		<b>23,455,910</b>			

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



	Shares	Value (\$)		Shares	Value (\$)
Hewlett-Packard Co.	87,019	1,510,650	Electronic Arts, Inc.*	3,900	194,103
International Business Machines Corp.	48,163	3,732,633	Intuit, Inc.*	5,800	272,136
Lexmark International, Inc.*	3,470	209,935	Mercury Interactive Corp.*	2,590	76,794
NCR Corp.*	3,294	78,200	Microsoft Corp.*	152,474	7,882,899
Network Appliance, Inc.*	9,612	96,120	Novell, Inc.*	9,975	33,317
Sun Microsystems, Inc.*	88,782	276,112	Oracle Corp.*	152,725	1,649,430
		<b>8,444,027</b>	Parametric Technology Corp.*	7,591	19,129
<b>Electronic Equipment &amp; Instruments 0.3%</b>			PeopleSoft, Inc.*	8,764	160,381
Agilent Technologies, Inc.*	12,948	232,546	Rational Software Corp.*	6,700	69,613
Jabil Circuit, Inc.*	5,200	93,184	Siebel Systems, Inc.*	14,959	110,697
Millipore Corp.	1,031	35,054	VERITAS Software Corp.*	11,480	179,318
PerkinElmer, Inc.	3,520	29,040			<b>11,329,536</b>
Sanmina Corp.*	16,532	74,229	<b>Materials 2.8%</b>		
Solectron Corp.*	27,340	97,057	<b>Chemicals 1.6%</b>		
Symbol Technologies, Inc.	6,050	49,731	Air Products & Chemicals, Inc.	7,085	302,884
Tektronix, Inc.*	2,124	38,636	Dow Chemical Co.	26,191	777,873
Thermo Electron Corp.*	4,305	86,617	E.I. du Pont de Nemours & Co.	28,890	1,224,936
Waters Corp.*	3,400	74,052	Eastman Chemical Co.	2,243	82,475
		<b>810,146</b>	Ecolab, Inc.	3,343	165,479
<b>Internet Software &amp; Services 0.1%</b>			Engelhard Corp.	2,700	60,345
Yahoo!, Inc.*	16,866	275,759	Great Lakes Chemicals Corp.	800	19,104
<b>IT Consulting &amp; Services 0.3%</b>			Hercules, Inc.*	1,807	15,902
Computer Sciences Corp.*	4,636	159,710	International Flavors & Fragrances, Inc.	2,211	77,606
Electronic Data Systems Corp.	13,840	255,071	Monsanto Co.	8,220	158,243
SunGard Data Systems, Inc.*	7,700	181,412	PPG Industries, Inc.	5,305	266,046
Unisys Corp.*	7,980	79,002	Praxair, Inc.	4,334	250,375
		<b>675,195</b>	Rohm & Haas Co.	5,826	189,228
<b>Office Electronics 0.1%</b>			Sigma-Aldrich Corp.	2,568	125,062
Xerox Corp.*	22,584	181,801			<b>3,715,558</b>
<b>Semiconductor Equipment &amp; Products 2.8%</b>			<b>Construction Materials 0.0%</b>		
Advanced Micro Devices, Inc.*	9,895	63,922	Vulcan Materials Co.	2,410	90,375
Altera Corp.*	10,946	135,074	<b>Containers &amp; Packaging 0.2%</b>		
Analog Devices, Inc.*	9,928	236,981	Ball Corp.	1,900	97,261
Applied Materials, Inc.*	46,106	600,761	Bemis Company, Inc.	1,056	52,409
Applied Micro Circuits Corp.*	10,100	37,269	Pactiv Corp.*	4,498	98,326
Broadcom Corp. "A"*	8,552	128,793	Sealed Air Corp.*	2,395	89,334
Intel Corp.	188,928	2,941,609	Temple-Inland, Inc.	1,868	83,705
KLA-Tencor Corp.*	5,295	187,284			<b>421,035</b>
Linear Technology Corp.	8,800	226,336	<b>Metals &amp; Mining 0.5%</b>		
LSI Logic Corp.*	8,913	51,428	Alcoa, Inc.	24,497	558,042
Maxim Integrated Products, Inc.	9,190	303,638	Allegheny Technologies, Inc.	1,267	7,893
Micron Technology, Inc.*	16,403	159,765	Freeport-McMoRan Copper & Gold, Inc. "B"*	5,287	88,716
National Semiconductor Corp.*	6,001	90,075	Newmont Mining Corp.	11,315	328,474
Novellus Systems, Inc.*	4,201	117,964	Nucor Corp.	2,276	93,999
NVIDIA Corp.*	5,000	57,550	Phelps Dodge Corp.	2,354	74,504
PMC-Sierra, Inc.*	5,573	30,986	United States Steel Corp.	2,961	38,848
QLogic Corp.*	2,641	91,141	Worthington Industries, Inc.	1,426	21,732
Teradyne, Inc.*	5,374	69,916			<b>1,212,208</b>
Texas Instruments, Inc.	48,795	732,413	<b>Paper &amp; Forest Products 0.5%</b>		
Xilinx, Inc.*	9,930	204,558	Boise Cascade Corp.	1,869	47,136
		<b>6,467,463</b>	Georgia-Pacific Corp.	6,241	100,855
<b>Software 4.9%</b>			International Paper Co.	14,652	512,380
Adobe Systems, Inc.	6,370	158,677	Louisiana-Pacific Corp.	1,880	15,153
Autodesk, Inc.	4,018	57,457	MeadWestvaco Corp.	5,794	143,165
BMC Software, Inc.*	6,108	104,508	Weyerhaeuser Co.	6,432	316,519
Citrix Systems, Inc.*	6,064	74,708			<b>1,135,208</b>
Computer Associates International, Inc.	16,965	229,028			
Compuware Corp.*	11,946	57,341			

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

	Shares	Value (\$)		Shares	Value (\$)
<b>Telecommunication Services 4.1%</b>					
<b>Diversified Telecommunication Services 3.7%</b>					
ALLTEL Corp.	8,947	456,297	Southern Co.	21,098	598,972
AT&T Corp.	21,999	574,394	TECO Energy, Inc.	6,100	94,367
BellSouth Corp.	53,067	1,372,843	TXU Corp.	9,026	168,606
CenturyTel, Inc.	3,933	115,552	Xcel Energy, Inc.	12,287	135,157
Citizens Communications Co.*	7,100	74,905			<b>5,150,794</b>
Qwest Communications International, Inc.	50,096	250,480	<b>Gas Utilities 0.3%</b>		
SBC Communications, Inc.	94,683	2,566,856	El Paso Corp.	17,841	124,173
Sprint Corp.	25,478	368,921	KeySpan Corp.	3,932	138,564
Verizon Communications, Inc.	77,810	3,015,138	Kinder Morgan, Inc.	3,364	142,196
		<b>8,795,386</b>	NICOR, Inc.	1,706	58,055
			NiSource, Inc.	7,951	159,020
			Peoples Energy Corp.	828	32,002
			Sempra Energy	5,476	129,507
					<b>783,517</b>
<b>Wireless Telecommunication Services 0.4%</b>			<b>Multi-Utilities &amp; Unregulated Power 0.3%</b>		
AT&T Wireless Services, Inc.*	77,489	437,813	AES Corp.*	15,171	45,816
Nextel Communications, Inc. "A"*	27,546	318,156	Calpine Corp.*	13,280	43,293
Sprint Corp. (PCS Group)*	28,520	124,918	Duke Energy Corp.	24,028	469,507
		<b>880,887</b>	Dynegy, Inc. "A"	8,980	10,596
			Mirant Corp.*	13,665	25,827
			Williams Companies, Inc.	11,119	30,021
					<b>625,060</b>
<b>Utilities 2.8%</b>			<b>Total Common Stocks (Cost \$299,590,233)</b>		
<b>Electric Utilities 2.2%</b>					<b>231,247,449</b>
Allegheny Energy, Inc.	5,810	43,924		<b>Principal Amount(\$)</b>	<b>Value (\$)</b>
Ameren Corp.	4,897	203,568	<b>US Treasury Obligations 0.2%</b>		
American Electric Power Co.	9,480	259,088	US Treasury Bill, 1.38%**, 1/23/2003 (c)		
CenterPoint Energy, Inc.	9,365	79,603	(Cost \$319,691)	320,000	319,787
CINergy Corp.	4,349	146,648			
CMS Energy Corp.	5,056	47,729		<b>Shares</b>	<b>Value (\$)</b>
Consolidated Edison, Inc.	6,044	258,804	<b>Cash Equivalents 0.9%</b>		
Constellation Energy Group, Inc.	3,810	105,994	Scudder Cash Management QP Trust,		
Dominion Resources, Inc.	8,122	445,898	1.4% (b) (Cost \$2,186,702)	2,186,702	2,186,702
DTE Energy Co.	4,946	229,494			
Edison International*	8,767	103,889	<b>Total Investment Portfolio — 100.0%</b>		
Energy Corp.	6,731	306,866	(Cost \$302,096,626) (a)		<b>233,753,938</b>
Exelon Corp.	9,502	501,421			
FirstEnergy Corp.	7,963	262,524			
FPL Group, Inc.	5,408	325,183			
PG&E Corp.*	9,931	138,041			
Pinnacle West Capital Corp.	1,608	54,817			
PPL Corp.	3,879	134,524			
Progress Energy, Inc.	6,723	291,442			
Public Service Enterprise Group, Inc.	6,674	214,235			

## Notes to SVS Index 500 Portfolio of Investments

\* Non-income producing security.

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

(a) The cost for federal income tax purposes was \$311,310,375. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$77,556,437. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$3,662,091 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$81,218,528.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(c) At December 31, 2002, these securities, in part or in whole, have been segregated to cover initial margin requirements for open futures contracts. At December 31, 2002, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value (\$)	Value (\$)
S&P 500 Index Future	3/20/2003	11	2,450,503	2,416,975
<b>Total unrealized depreciation on open futures contracts</b>				<b>(33,528)</b>

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$302,096,626)	\$ 233,753,938
Cash	10,000
Receivable for investments sold	107,469
Dividends receivable	367,028
Interest receivable	2,148
Receivable for Portfolio shares sold	13,895
Other assets	3,694
<b>Total assets</b>	<b>234,258,172</b>

### Liabilities

Payable for investments purchased	79,163
Payable for Portfolio shares redeemed	347,523
Payable for daily variation margin on open futures contracts	1,026
Accrued management fee	71,618
Other accrued expenses and payables	59,349
<b>Total liabilities</b>	<b>558,679</b>
<b>Net assets, at value</b>	<b>\$ 233,699,493</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	2,667,640
Net unrealized appreciation (depreciation) on:	
Investments	(68,342,688)
Futures	(33,528)
Accumulated net realized gain (loss)	(23,347,673)
Paid-in capital	322,755,742
<b>Net assets, at value</b>	<b>\$ 233,699,493</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$232,540,223 ÷ 35,202,430 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 6.61</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$1,159,270 ÷ 175,906 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 6.59</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$10,019)	\$ 3,837,698
Interest	125,245
<b>Total Income</b>	<b>3,962,943</b>
Expenses:	
Management fee	933,197
Custodian and accounting fees	137,233
Distribution service fees	304
Auditing	27,853
Legal	4,050
Trustees' fees and expenses	2,672
Reports to shareholders	31,004
Other	13,981
<b>Total expenses, before expense reductions</b>	<b>1,150,294</b>
Expense reductions	(76)
<b>Total expenses, after expense reductions</b>	<b>1,150,218</b>
<b>Net investment income (loss)</b>	<b>2,812,725</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(14,272,840)
Futures	(1,979,377)
	(16,252,217)
Net unrealized appreciation (depreciation) during the period on:	
Investments	(50,448,784)
Futures	(81,267)
	(50,530,051)
<b>Net gain (loss) on investment transactions</b>	<b>(66,782,268)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (63,969,543)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 2,812,725	\$ 1,225,136
Net realized gain (loss) on investment transactions	(16,252,217)	(5,793,468)
Net unrealized appreciation (depreciation) on investment transactions during the period	(50,530,051)	(11,091,590)
Net increase (decrease) in net assets resulting from operations	(63,969,543)	(15,659,922)
Distributions to shareholders from:		
Net investment income		
Class A	(1,192,208)	(599,089)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	119,237,391	155,872,926
Reinvestment of distributions	1,192,208	599,089
Cost of shares redeemed	(42,059,224)	(23,292,796)
Net increase (decrease) in net assets from Class A share transactions	78,370,375	133,179,219
<b>Class B*</b>		
Proceeds from shares sold	1,181,765	—
Cost of shares redeemed	(528)	—
Net increase (decrease) in net assets from Class B share transactions	1,181,237	—
<b>Increase (decrease) in net assets</b>	<b>14,389,861</b>	<b>116,920,208</b>
Net assets at beginning of period	219,309,632	102,389,424
Net assets at end of period (including undistributed net investment income of \$2,667,640 and \$1,054,611, respectively)	<b>\$ 233,699,493</b>	<b>\$ 219,309,632</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	25,657,004	10,470,034
Shares sold	15,320,978	17,850,611
Shares issued to shareholders in reinvestment of distributions	139,931	70,710
Shares redeemed	(5,915,483)	(2,734,351)
Net increase (decrease) in Portfolio shares	9,545,426	15,186,970
Shares outstanding at end of period	<b>35,202,430</b>	<b>25,657,004</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	175,980	—
Shares redeemed	(74)	—
Net increase (decrease) in Portfolio shares	175,906	—
Shares outstanding at end of period	<b>175,906</b>	—

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.



# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a,b</sup>
<b>Selected Per Share Data</b>				
<b>Net asset value, beginning of period</b>	<b>\$ 8.55</b>	<b>\$ 9.78</b>	<b>\$ 10.96</b>	<b>\$ 10.00</b>
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>c</sup>	.09	.08	.10	.10
Net realized and unrealized gain (loss) on investment transactions	(1.99)	(1.26)	(1.18)	.86
<b>Total from investment operations</b>	<b>(1.90)</b>	<b>(1.18)</b>	<b>(1.08)</b>	<b>.96</b>
<i>Less distributions from:</i>				
Net investment income	(.04)	(.05)	(.05)	—
Net realized gains on investment transactions	—	—	(.05)	—
<b>Total distributions</b>	<b>(.04)</b>	<b>(.05)</b>	<b>(.10)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 6.61</b>	<b>\$ 8.55</b>	<b>\$ 9.78</b>	<b>\$ 10.96</b>
Total Return (%)	(22.34)	(12.05) <sup>d</sup>	(9.93) <sup>d</sup>	9.55 <sup>d**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>				
Net assets, end of period (\$ millions)	233	219	102	32
Ratio of expenses before expense reductions (%)	.48	.65	.88	.84*
Ratio of expenses after expense reductions (%)	.48	.55	.54	.55*
Ratio of net investment income (loss) (%)	1.16	.88	.90	3.72*
Portfolio turnover rate (%)	6	13	20	1*

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> For the period from September 1, 1999 (commencement of operations) to December 31, 1999.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
<b>Net asset value, beginning of period</b>	<b>\$ 7.21</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.05
Net realized and unrealized gain (loss) on investment transactions	(.67)
<b>Total from investment operations</b>	<b>(.62)</b>
<b>Net asset value, end of period</b>	<b>\$ 6.59</b>
Total Return (%)	(8.60)**
<b>Ratios to Average Net Assets and Supplemental Data</b>	
Net assets, end of period (\$ millions)	1
Ratio of expenses (%)	.69*
Ratio of net investment income (loss) (%)	1.42*
Portfolio turnover rate (%)	6

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## SVS INVESCO Dynamic Growth Portfolio

The portfolio declined and underperformed the Russell Mid Cap Growth Index during the period. Performance was hurt by the market's persistent risk aversion, a tone that kept growth stocks under pressure all year. The portfolio's exposure to companies that we deemed best positioned to capitalize on the economic recovery also contributed to its underperformance, when it became clear as the period progressed that the economy was not improving as quickly as we had anticipated.

Consequently, many of our stocks came under pressure, and the portfolio's technology and telecommunications stocks were hurt the most by these trends. The portfolio saw absolute declines in most sectors, as the portfolio's exposure to the industrial, consumer discretionary, consumer staples and financial services sectors all retreated.

The portfolio's health care holdings also declined. However, its exposure in the sector outperformed, with several companies, including Forest Laboratories, Inc. and Zimmer Holdings, Inc., recording positive absolute performance. Performance was also augmented by the portfolio's overweight energy stake, as persistently high oil prices supported stocks in the sector for most of the period.

Going forward, we continue to be optimistic about the potential offered by the portfolio's holdings. Although the portfolio underperformed during December, it performed well during the strong markets in October and November. We believe this suggests that the modest changes we made to its composition during the third quarter could translate into notable performance as the economy improves and stock markets stabilize.

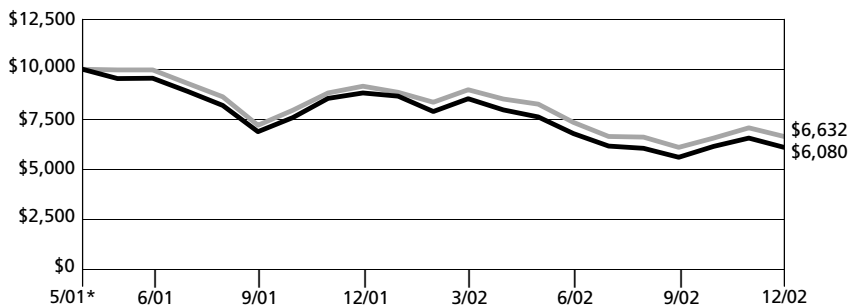
Timothy J. Miller

Lead Manager

INVESCO, Subadvisor to the Portfolio

### Growth of an Assumed \$10,000 Investment in SVS INVESCO Dynamic Growth Portfolio from 5/1/2001 to 12/31/2002

- SVS INVESCO Dynamic Growth Portfolio — Class A
- Russell Mid Cap Growth Index



Russell Midcap Growth Index is an unmanaged index composed of common stocks of midcap companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index.

### Average Annual Total Returns<sup>1</sup>

SVS INVESCO Dynamic Growth Portfolio	1-Year	Life of Portfolio <sup>2</sup>
Class A	-30.91%	-25.80% (Since 5/1/2001)*

\* The Portfolio commenced operations on May 1, 2001. Index returns begin April 30, 2001.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## SVS INVESCO Dynamic Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 92.4%</b>					
<b>Consumer Discretionary 17.5%</b>					
<b>Hotel Restaurants &amp; Leisure 3.9%</b>					
CBRL Group, Inc.	9,600	289,248	Smith International, Inc.*	8,600	280,532
Harrah's Entertainment, Inc.*	7,700	304,920			<b>801,799</b>
Hilton Hotels Corp.	11,200	142,352	<b>Oil &amp; Gas 3.7%</b>		
MGM Mirage, Inc.*	2,150	70,886	Apache Corp.	4,430	252,466
Starbucks Corp.*	4,800	97,824	EOG Resources, Inc.	1,900	75,848
Wynn Resorts Ltd.*	12,400	162,564	Kerr-McGee Corp.	4,500	199,350
		<b>1,067,794</b>	Murphy Oil Corp.	6,200	265,670
			Pioneer Natural Resources Co.*	8,200	207,050
					<b>1,000,384</b>
<b>Internet &amp; Catalog Retailing 1.5%</b>			<b>Financials 9.7%</b>		
eBay, Inc.*	6,050	410,311	<b>Banks 3.3%</b>		
<b>Leisure Equipment &amp; Products 0.7%</b>			Banknorth Group, Inc.	5,900	133,340
Mattel, Inc.	10,500	201,075	M&T Bank Corp.	2,000	158,700
<b>Media 8.5%</b>			National Commerce Financial Corp.	5,200	124,020
Cox Communications, Inc. "A"*	8,300	235,720	Northern Trust Corp.	5,900	206,795
Cox Radio, Inc. "A"*	8,400	191,604	Synovus Financial Corp.	6,800	131,920
EchoStar Communications Corp. "A"*	12,850	286,041	TCF Financial Corp.	3,500	152,915
Entercom Communications Corp.*	6,300	295,596			<b>907,690</b>
Lamar Advertising Co.*	11,900	400,435	<b>Diversified Financials 4.4%</b>		
Metro-Goldwyn-Mayer, Inc.*	13,500	175,500	A.G. Edwards, Inc.	1,700	56,032
Omnicom Group, Inc.	3,700	239,020	Bear Stearns Companies, Inc.	1,400	83,160
Univision Communications, Inc. "A"*	8,800	215,600	Eaton Vance Corp.	4,500	127,125
Westwood One, Inc.*	6,900	257,784	Federated Investors, Inc. "B"	2,200	55,814
WPP Group PLC	5,600	42,813	Legg Mason, Inc.	6,000	291,240
		<b>2,340,113</b>	Lehman Brothers Holdings, Inc.	2,600	138,554
			Neuberger Berman, Inc.	4,600	154,054
<b>Specialty Retail 2.7%</b>			SLM Corp.	2,800	290,808
CDW Computer Centers, Inc.*	8,250	361,763			<b>1,196,787</b>
Office Depot, Inc.*	11,400	168,264	<b>Insurance 2.0%</b>		
Ross Stores, Inc.	1,300	55,107	AMBAC Financial Group, Inc.	4,200	236,208
Tiffany & Co.	6,100	145,851	Nationwide Financial Services, Inc. "A"	8,500	243,525
		<b>730,985</b>	Renaissance Retail Group Ltd.	1,800	71,280
					<b>551,013</b>
<b>Textiles, Apparel &amp; Luxury Goods 0.2%</b>			<b>Health Care 16.7%</b>		
The Limited, Inc.	3,300	45,969	<b>Biotechnology 1.1%</b>		
<b>Consumer Staples 1.0%</b>			Gilead Sciences, Inc.*	8,600	292,400
<b>Food Products 0.2%</b>			<b>Health Care Equipment &amp; Supplies 6.2%</b>		
Hershey Foods Corp.	800	53,952	Alcon, Inc.*	9,300	366,885
<b>Household Products 0.7%</b>			Biomet, Inc.	1,400	40,124
Dial Corp.	8,900	181,293	Boston Scientific Corp.*	8,000	340,160
<b>Personal Products 0.1%</b>			Guidant Corp.*	1,400	43,190
Estee Lauder Companies, Inc. "A"	1,500	39,600	St. Jude Medical, Inc.*	3,700	146,964
<b>Energy 6.6%</b>			Stryker Corp.	600	40,272
<b>Energy Equipment &amp; Services 2.9%</b>			Varian Medical Systems, Inc.*	7,100	352,160
BJ Services Co.*	1,500	48,465	Zimmer Holdings, Inc.*	8,800	365,376
Cooper Cameron Corp.*	6,100	303,902			<b>1,695,131</b>
Nabors Industries Ltd.*	1,500	52,905	<b>Health Care Providers &amp; Services 4.8%</b>		
Noble Corp.*	3,300	115,995	AmerisourceBergen Corp.	5,790	314,455
			First Health Group Corp.*	11,000	267,850
			Health Management Associates, Inc.	3,800	68,020
			McKesson Corp.	6,600	178,398

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

	Shares	Value (\$)		Shares	Value (\$)
Triad Hospitals, Inc.*	5,800	173,014	<b>Electronic Equipment &amp; Instruments 1.6%</b>		
Universal Health Services, Inc. "B"*	4,000	180,400	AVX Corp.	3,800	37,240
Wellpoint Health Networks, Inc.*	1,800	128,088	Celestica, Inc.*	9,200	129,720
		<b>1,310,225</b>	Flextronics International Ltd.*	6,600	54,054
<b>Pharmaceuticals 4.6%</b>			Tech Data Corp.*	8,400	226,464
Forest Laboratories, Inc.*	9,200	903,621			<b>447,478</b>
Teva Pharmaceutical Industries Ltd. (ADR)	9,100	351,351	<b>Internet Software &amp; Services 1.7%</b>		
		<b>1,254,972</b>	Expedia, Inc.*	3,300	220,870
			Hotels.com "A"*	4,600	251,298
<b>Industrials 13.2%</b>					<b>472,168</b>
<b>Aerospace &amp; Defense 0.9%</b>			<b>IT Consulting &amp; Services 2.0%</b>		
L-3 Communications Holdings, Inc.*	5,500	247,005	Affiliated Computer Services, Inc. "A"*	5,800	305,370
<b>Commercial Services &amp; Supplies 7.7%</b>			SunGard Data Systems, Inc.*	9,900	233,244
Apollo Group, Inc. "A"*	4,000	176,000			<b>538,614</b>
Career Education Corp.*	3,500	140,000	<b>Semiconductor Equipment &amp; Products 6.6%</b>		
ChoicePoint Inc.	3,600	142,164	Altera Corp.*	12,200	150,548
Education Management Corporation*	1,700	63,920	Analog Devices, Inc.*	3,050	72,804
Fiserv, Inc.*	5,500	186,725	Broadcom Corp. "A"*	8,100	121,986
H&R Block, Inc.	2,500	100,500	Fairchild Semiconductor Corp.*	6,100	65,331
Hewitt Associates, Inc. "A"*	1,000	31,690	KLA-Tencor Corp.*	6,600	233,442
Manpower, Inc.	6,600	210,540	Lam Research Corp.*	9,230	99,684
Paychex, Inc.	9,600	267,840	Linear Technology Corp.	7,350	189,042
Republic Services, Inc.*	12,600	264,348	Maxim Integrated Products, Inc.	6,200	204,848
Robert Half International, Inc.*	16,750	269,843	Microchip Technology, Inc.	13,950	341,078
The BISYS Group, Inc.*	12,100	192,390	National Semiconductor Corp.*	4,300	64,543
Weight Watchers International, Inc.*	1,400	64,358	Novellus Systems, Inc.*	7,200	202,176
		<b>2,110,318</b>	RF Micro Devices, Inc.*	4,600	33,718
			Xilinx, Inc.*	1,800	37,080
<b>Electrical Equipment 0.6%</b>					<b>1,816,280</b>
Molex, Inc.	7,600	175,104	<b>Software 8.3%</b>		
<b>Machinery 3.1%</b>			Adobe Systems, Inc.	4,400	109,604
Danaher Corp.	2,500	164,250	Amdocs Ltd.*	9,200	90,344
Eaton Corp.	1,200	93,732	BEA Systems, Inc.*	26,100	299,367
Illinois Tool Works, Inc.	3,800	246,468	BMC Software, Inc.*	11,600	198,476
ITT Industries, Inc.	2,300	139,587	Intuit, Inc.*	5,600	262,752
Parker-Hannifin Corp.	900	41,517	Mercury Interactive Corp.*	4,300	127,495
SPX Corp.*	4,700	176,015	Network Associates, Inc.*	5,900	94,931
		<b>861,569</b>	PeopleSoft, Inc.*	19,800	362,340
<b>Road &amp; Rail 0.5%</b>			Quest Software, Inc.*	4,300	44,333
Arkansas Best Corp.*	5,100	132,503	Siebel Systems, Inc.*	11,300	83,620
<b>Trading Companies &amp; Distributors 0.4%</b>			Symantec Corp.*	8,900	360,005
Fastenal Co.	3,000	112,170	TIBCO Software, Inc.*	11,500	71,070
			VERITAS Software Corp.*	11,100	173,382
<b>Information Technology 23.3%</b>					<b>2,277,719</b>
<b>Communications Equipment 1.6%</b>			<b>Materials 1.0%</b>		
Alcatel Alsthom (ADR)	9,600	42,624	<b>Chemicals</b>		
Comverse Technologies, Inc.*	9,200	92,184	Praxair, Inc.	4,600	265,742
Emulex Corp.*	11,600	215,180	<b>Telecommunication Services 0.9%</b>		
Tellabs, Inc.*	10,800	78,516	<b>Wireless Telecommunication Services</b>		
		<b>428,504</b>	Nextel Communications, Inc. "A"*	12,900	148,995
<b>Computers &amp; Peripherals 1.5%</b>			Nextel Partners, Inc.*	16,600	100,762
Lexmark International, Inc.*	4,100	248,050			<b>249,757</b>
Network Appliance, Inc.*	16,500	165,000			
		<b>413,050</b>			

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

	Shares	Value (\$)
<b>Other 2.5%</b>		
Biotech HOLDRs Trust	2,000	169,120
iShares Russell Midcap Growth Index Fund	100	5,170
iShares S&P Midcap 400/BARRA Growth Index Fund	400	36,580
Nasdaq-100 Index Trading Stock*	9,900	241,263
Semiconductor HOLDRs Trust	2,800	62,020
Software HOLDRs Trust	6,900	186,231
		<b>700,384</b>
<b>Total Common Stocks (Cost \$25,810,359)</b>		<b>25,329,858</b>

	Shares	Value (\$)
<b>Warrants 0.1%</b>		
<b>Industrials</b>		
<b>Internet Software &amp; Services</b>		
Expedia, Inc.* (Cost \$11,200)	710	25,432
<b>Cash Equivalents 7.5%</b>		
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$2,044,617)	2,044,617	2,044,617
<b>Total Investment Portfolio — 100.0%</b> (Cost \$27,866,176) (a)		<b>27,399,907</b>

### Notes to SVS INVESCO Dynamic Growth Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$28,817,878. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$1,417,971. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$1,159,627 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$2,577,598.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$27,866,176)	\$ 27,399,907
Cash	10,000
Receivable for investments sold	321,186
Dividends receivable	10,046
Interest receivable	2,277
Receivable for Portfolio shares sold	50
Other assets	383
<b>Total assets</b>	<b>27,743,849</b>

### Liabilities

Payable for investments purchased	2,261,984
Payable for Portfolio shares redeemed	18,556
Accrued management fee	21,212
Other accrued expenses and payables	11,328
<b>Total liabilities</b>	<b>2,313,080</b>
<b>Net assets, at value</b>	<b>\$ 25,430,769</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	(185)
Net unrealized appreciation (depreciation) on investments	(466,269)
Accumulated net realized gain (loss)	(8,208,043)
Paid-in capital	34,105,266
<b>Net assets, at value</b>	<b>\$ 25,430,769</b>

### Class A

**Net Asset Value**, offering and redemption price per share (\$25,335,180 ÷ 4,165,073 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized) **\$ 6.08**

### Class B

**Net Asset Value**, offering and redemption price per share (\$95,589 ÷ 15,737 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized) **\$ 6.07**

## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net foreign taxes withheld of \$401)	\$ 70,539
Interest	38,677
<b>Total Income</b>	<b>109,216</b>
Expenses:	
Management fee	253,612
Custodian and accounting fees	32,412
Distribution service fees	25
Auditing	2,192
Legal	2,543
<b>Total expenses, before expense reductions</b>	<b>290,784</b>
Expense reductions	(49)
<b>Total expenses, after expense reductions</b>	<b>290,735</b>
<b>Net investment income (loss)</b>	<b>(181,519)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(7,469,861)
Foreign related currency transactions	(1,165)
	(7,471,026)
Net unrealized appreciation (depreciation) during the period on investments	(2,081,578)
<b>Net gain (loss) on investment transactions</b>	<b>(9,552,604)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (9,734,123)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001 <sup>a</sup>
Operations:		
Net investment income (loss)	\$ (181,519)	\$ (25,882)
Net realized gain (loss) on investment transactions	(7,471,026)	(738,182)
Net unrealized appreciation (depreciation) on investment transactions during the period	(2,081,578)	1,615,309
Net increase (decrease) in net assets resulting from operations	(9,734,123)	851,245
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	19,978,320	79,265,918
Cost of shares redeemed	(8,084,086)	(56,944,932)
Net increase (decrease) in net assets from Class A share transactions	11,894,234	22,320,986
<b>Class B*</b>		
Proceeds from shares sold	98,567	—
Cost of shares redeemed	(140)	—
Net increase (decrease) in net assets from Class B share transactions	98,427	—
<b>Increase (decrease) in net assets</b>	<b>2,258,538</b>	<b>23,172,231</b>
Net assets at beginning of period	23,172,231	—
Net assets at end of period (including accumulated net investment loss of \$185 at December 31, 2002)	<b>\$ 25,430,769</b>	<b>\$ 23,172,231</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	2,632,079	—
Shares sold	2,642,531	9,384,584
Shares redeemed	(1,109,537)	(6,752,505)
Net increase (decrease) in Portfolio shares	1,532,994	2,632,079
Shares outstanding at end of period	<b>4,165,073</b>	<b>2,632,079</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	15,759	—
Shares redeemed	(22)	—
Net increase (decrease) in Portfolio shares	15,737	—
Shares outstanding at end of period	<b>15,737</b>	—

<sup>a</sup> For the period from May 1, 2001 (commencement of operations) to December 31, 2001.

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001 <sup>a</sup>
<b>Selected Per Share Data</b>		
<b>Net asset value, beginning of period</b>	<b>\$ 8.80</b>	<b>\$ 10.00</b>
<i>Income (loss) from investment operations:</i>		
Net investment income (loss) <sup>b</sup>	(.05)	(.02)
Net realized and unrealized gain (loss) on investment transactions	(2.67)	(1.18) <sup>c</sup>
<b>Total from investment operations</b>	<b>(2.72)</b>	<b>(1.20)</b>
<b>Net asset value, end of period</b>	<b>\$ 6.08</b>	<b>\$ 8.80</b>
Total Return (%)	(30.91)	(12.00) <sup>d**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	25	23
Ratio of expenses before expense reductions (%)	1.14	1.97*
Ratio of expenses after expense reductions (%)	1.14	1.30*
Ratio of net investment income (loss) (%)	(.71)	(.40)*
Portfolio turnover rate (%)	79	40*

<sup>a</sup> For the period from May 1, 2001 (commencement of operations) to December 31, 2001.

<sup>b</sup> Based on average shares outstanding during the period.

<sup>c</sup> The amount of net realized and unrealized gain shown for a share outstanding for the period ending December 31, 2001 does not correspond with the aggregate net loss on investments for the period due to the timing of sales and repurchases of Portfolio shares in relation to fluctuating market values of the investments of the Portfolio.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
<b>Net asset value, beginning of period</b>	<b>\$ 6.51</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	(.03)
Net realized and unrealized gain (loss) on investment transactions	(.41)
<b>Total from investment operations</b>	<b>(.44)</b>
<b>Net asset value, end of period</b>	<b>\$ 6.07</b>
Total Return (%)	(6.76)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.1
Ratio of expenses (%)	1.40*
Ratio of net investment income (loss) (%)	(.82)*
Portfolio turnover rate (%)	79

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized



## SVS Janus Growth and Income Portfolio

The year was marked by volatility in the markets as accounting scandals, corporate bankruptcies and geopolitical tensions shook investors' confidence. Though the market rallied in October and November on encouraging economic news and some better-than-expected earnings reports, it declined in December with weak retail sales and rising unemployment numbers and oil prices. As such, the major market indices logged their third year of losses for the first time since the Great Depression. Our overweight position in the struggling financial services sector had the biggest negative impact on results. However, this was offset by the outperformance of the select information technology holdings during the period.

Among our detractors was Microsoft, though the software giant's recurring-revenue business model and dot-net strategy continued to generate high free cash flow. The company also saw significant reduction in its litigation risk with the resolution of the Federal government's antitrust case. Liberty Media, a media conglomerate that holds a diverse portfolio of cable and programming assets, also declined, though it continued to report very strong operating results at a number of key private subsidiaries including Discovery Networks and Starz/Encore.

Boosting performance for the year was the world's largest brewer, Anheuser-Busch. With 16 quarters of double-digit growth under its belt, the company's outlook for pricing and volume growth remains positive for 2003. Shares of Procter & Gamble, the consumer goods manufacturer, also rose as it continued to focus on its core product categories and streamline processes.

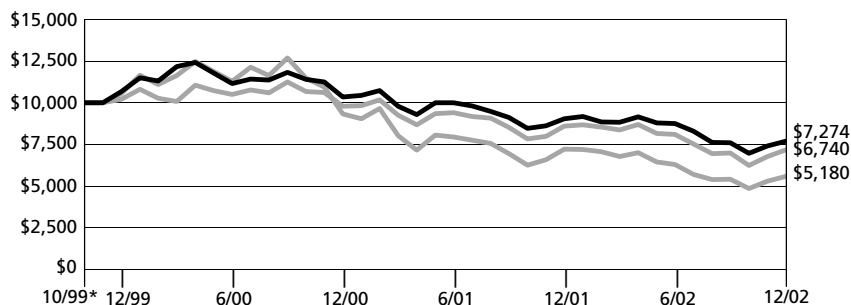
As we head into 2003, I am slightly more optimistic. With that in mind, I have shifted the portfolio's bias to be more aggressive by lowering the fixed-income portion, owning more corporate bonds versus Treasuries, and trimming some of our more defensive holdings. However, I am picking my stocks as prudently as ever by focusing on company-by-company analysis.

David J. Corkins, Lead Manager

Janus Capital Management LLC, Subadvisor to the Portfolio

### Growth of an Assumed \$10,000 Investment in SVS Janus Growth and Income Portfolio from 10/29/1999 to 12/31/2002

- SVS Janus Growth and Income Portfolio — Class A
- Russell 1000 Growth Index
- S&P 500 Index



The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with greater-than-average growth orientation and represents the universe of stocks from which "earnings/growth" money managers typically select. The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the Russell 1000 Growth Index, which better reflects the Portfolio's investment style, will be shown instead of the S&P 500 Index.

### Average Annual Total Returns<sup>1</sup>

SVS Janus Growth and Income Portfolio	1-Year	3-Year	Life of Portfolio <sup>2</sup>
Class A	-20.56%	-14.14%	-9.54% (Since 10/29/1999)*

\* The Portfolio commenced operations October 29, 1999. Index returns begin October 31, 1999.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower. Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## SVS Janus Growth and Income Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 82.8%</b>					
<b>Consumer Discretionary 19.1%</b>					
<b>Automobiles 0.9%</b>					
Bayerische Motoren Werke AG	24,563	746,582			
Harley-Davidson, Inc.	15,590	720,258			
		<b>1,466,840</b>			
<b>Hotel Restaurants &amp; Leisure 2.0%</b>					
Fairmont Hotels & Resorts	60,351	1,404,636			
Park Place Entertainment Corp.*	110,075	924,630			
Starwood Hotels & Resorts Worldwide, Inc.	39,600	940,104			
		<b>3,269,370</b>			
<b>Household Durables 1.1%</b>					
The Stanley Works	51,815	1,791,763			
<b>Internet &amp; Catalog Retailing 0.9%</b>					
USA Networks, Inc.*	68,920	1,575,511			
<b>Leisure Equipment &amp; Products 1.2%</b>					
Mattel, Inc.	108,760	2,082,754			
<b>Media 12.5%</b>					
AOL Time Warner, Inc.*	28,285	370,534			
Clear Channel Communications, Inc.*	54,195	2,020,932			
Comcast Corp. "A"*	140,360	3,170,732			
Cox Communications, Inc. "A"*	86,940	2,469,096			
Gannett Co., Inc.	30,820	2,212,876			
Lamar Advertising Co.*	19,010	639,687			
Liberty Media Corp. "A"*	495,280	4,427,803			
Viacom, Inc. "B"*	105,930	4,317,707			
Walt Disney Co.	75,580	1,232,710			
		<b>20,862,077</b>			
<b>Multiline Retail 0.5%</b>					
Target Corp.	26,190	785,700			
<b>Consumer Staples 5.8%</b>					
<b>Beverages 3.2%</b>					
Anheuser-Busch Companies, Inc.	66,780	3,232,152			
PepsiCo, Inc.	50,747	2,142,538			
		<b>5,374,690</b>			
<b>Household Products 2.6%</b>					
Colgate-Palmolive Co.	26,145	1,370,782			
Procter & Gamble Co.	34,895	2,998,876			
		<b>4,369,658</b>			
<b>Energy 6.4%</b>					
<b>Oil &amp; Gas</b>					
ConocoPhillips	46,205	2,235,860			
Encana Corp.	83,744	2,596,309			
Exxon Mobil Corp.	169,595	5,925,649			
		<b>10,757,818</b>			
<b>Financials 22.4%</b>					
<b>Banks 3.9%</b>					
Bank of America Corp.	34,615	2,408,166	J.P. Morgan Chase & Co.	31,490	755,760
			US Bancorp.	155,197	3,293,280
					<b>6,457,206</b>
<b>Diversified Financials 9.0%</b>					
Charles Schwab Corp.	42,590	462,102			
CIT Group, Inc.	96,580	1,892,968			
Citigroup, Inc.	203,368	7,156,524			
Fannie Mae	57,030	3,668,740			
Goldman Sachs Group, Inc.	26,995	1,838,360			
		<b>15,018,694</b>			
<b>Insurance 9.5%</b>					
AFLAC, Inc.	41,175	1,240,191			
American International Group, Inc.	53,180	3,076,486			
Berkshire Hathaway, Inc. "B"*	1,461	3,540,003			
John Hancock Financial Services, Inc.	58,190	1,623,501			
Marsh & McLennan Companies, Inc.	100,825	4,659,123			
MGIC Investment Corp.	33,645	1,389,539			
Travelers Property Casualty Corp.*	32,555	476,931			
		<b>16,005,774</b>			
<b>Health Care 7.4%</b>					
<b>Health Care Equipment &amp; Supplies 1.8%</b>					
Medtronic, Inc.	67,725	3,088,260			
<b>Health Care Providers &amp; Services 0.5%</b>					
Tenet Healthcare Corp.*	15,045	246,738			
UnitedHealth Group, Inc.	7,385	616,648			
		<b>863,386</b>			
<b>Pharmaceuticals 5.1%</b>					
Abbott Laboratories	45,025	1,801,000			
Merck & Co., Inc.	19,705	1,115,500			
Pfizer, Inc.	122,300	3,738,711			
Wyeth	49,920	1,867,008			
		<b>8,522,219</b>			
<b>Industrials 9.8%</b>					
<b>Aerospace &amp; Defense 1.8%</b>					
General Dynamics Corp.	21,325	1,692,565			
Honeywell International, Inc.	51,570	1,237,680			
		<b>2,930,245</b>			
<b>Air Freight &amp; Logistics 0.3%</b>					
C.H. Robinson Worldwide, Inc.	17,300	539,760			
<b>Airlines 0.2%</b>					
Southwest Airlines Co.	22,875	317,963			
<b>Commercial Services &amp; Supplies 3.9%</b>					
Automatic Data Processing, Inc.	43,195	1,695,404			
Ceridan Corp.*	97,850	1,410,997			
Paychex, Inc.	55,777	1,556,178			
Valassis Communications, Inc.*	39,510	1,162,779			
Waste Management, Inc.	29,490	675,911			
		<b>6,501,269</b>			
<b>Industrial Conglomerates 3.1%</b>					
3M Co.	15,420	1,901,280			

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

	Shares	Value (\$)
General Electric Co.	136,505	3,323,897
		<b>5,225,177</b>
<b>Road &amp; Rail 0.5%</b>		
Canadian National Railway Co.	21,285	882,974
<b>Information Technology 8.6%</b>		
<b>Communications Equipment 0.7%</b>		
Nokia Oyj (ADR)	81,265	1,259,608
<b>Computers &amp; Peripherals 1.6%</b>		
Apple Computer, Inc.*	76,105	1,090,585
International Business Machines Corp.	14,555	1,128,013
Lexmark International, Inc.*	8,855	535,728
		<b>2,754,326</b>
<b>IT Consulting &amp; Services 0.5%</b>		
Accenture Ltd. "A"*	43,680	785,803
<b>Semiconductor Equipment &amp; Products 2.0%</b>		
Linear Technology Corp.	30,385	781,502
Maxim Integrated Products, Inc.	76,460	2,526,238
		<b>3,307,740</b>
<b>Software 3.8%</b>		
Electronic Arts, Inc.*	16,865	839,371
Microsoft Corp.*	106,855	5,524,404
		<b>6,363,775</b>
<b>Materials 2.1%</b>		
<b>Chemicals</b>		
E.I. du Pont de Nemours & Co.	70,915	3,006,796
International Flavors & Fragrances, Inc.	15,715	551,597
		<b>3,558,393</b>
<b>Telecommunication Services 0.5%</b>		
<b>Diversified Telecommunication Services</b>		
SBC Communications, Inc.	29,355	795,814
<b>Utilities 0.7%</b>		
<b>Gas Utilities</b>		
Kinder Morgan, Inc.	27,250	1,151,858
<b>Total Common Stocks (Cost \$154,263,900)</b>		<b>138,666,425</b>

<b>Preferred Stocks 1.7%</b>		
General Motors	70,670	1,617,495
Porsche AG	2,926	1,216,515
<b>Total Preferred Stock (Cost \$2,633,902)</b>		<b>2,834,010</b>

	Shares	Value (\$)
<b>Convertible Bonds 0.1%</b>		
Centerpoint Energy, Inc., 2.00%, 9/15/2029*	41,585	8,944
Lamar Advertising Co., 5.25%, 9/15/2006*	185,000	186,454
<b>Total Convertible Bonds (Cost \$2,039,466)</b>		<b>195,398</b>

	Principal Amount (\$)	Value (\$)
<b>Corporate Bonds 3.0%</b>		
Canadian National Railway, 6.625%, 4/15/2008	700,000	789,398
CenturyTel, Inc., 8.375%, 10/15/2010	120,000	143,184
Cox Communications, Inc., 7.125%, 10/1/2012	870,000	966,339
Devon Energy Corp., Zero Coupon, 6/27/2020	215,000	112,617
Mattel, Inc.:		
6.0%, 7/15/2003	85,000	85,571
6.125%, 7/15/2005	155,000	158,720
Six Flags, Inc.:		
8.875%, 2/1/2010	225,000	211,500
9.5%, 2/1/2009	55,000	53,075
USA Waste Services Inc., 7.0%, 10/1/2004	300,000	314,075
Wal-Mart Stores, 4.375%, 8/1/2003	1,575,000	1,601,561
Waste Management, Inc.:		
6.375%, 12/1/2003	505,000	514,650
7.0%, 5/15/2005	135,000	142,018
<b>Total Corporate Bonds (Cost \$4,828,678)</b>		<b>5,092,708</b>

	Shares	Value (\$)
<b>US Treasury Obligations 6.9%</b>		
US Treasury, 2.25%, 7/31/2004	2,350,000	2,380,844
US Treasury Note:		
2.875%, 6/30/2004	3,595,000	3,674,482
3.0%, 1/31/2004	2,950,000	3,004,852
3.5%, 11/15/2006	2,350,000	2,445,469
<b>Total US Treasury Obligations (Cost \$11,404,156)</b>		<b>11,505,647</b>

	Shares	Value (\$)
<b>Cash Equivalents 5.5%</b>		
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$9,146,557)	9,146,557	9,146,557
<b>Total Investment Portfolio — 100.0%</b> (Cost \$184,316,659) (a)		<b>167,440,745</b>

## Notes to SVS Janus Growth and Income Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$188,203,688. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$20,762,943. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$3,612,053 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$24,374,996.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$184,316,659)	\$ 167,440,745
Receivable for investments sold	244,637
Dividends receivable	138,617
Interest receivable	170,657
Receivable for Portfolio shares sold	28,227
Foreign taxes recoverable	4,647
Unrealized appreciation on forward foreign currency exchange contracts	87,286
Other assets	2,834
<b>Total assets</b>	<b>168,117,650</b>

### Liabilities

Due to custodian bank	2,434
Payable for investments purchased	657,953
Payable for Portfolio shares redeemed	302,773
Accrued management fee	136,465
Other accrued expenses and payables	49,841
Unrealized depreciation on forward foreign currency exchange contracts	4,076
<b>Total liabilities</b>	<b>1,153,542</b>

**Net assets, at value** **\$ 166,964,108**

### Net Assets

Net assets consist of:	
Undistributed net investment income	868,707
Net unrealized appreciation (depreciation) on:	
Investments	(16,875,914)
Foreign currency related transactions	84,166
Accumulated net realized gain (loss)	(53,837,378)
Paid-in capital	236,724,527
<b>Net assets, at value</b>	<b>\$ 166,964,108</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$166,584,889 ÷ 23,312,732 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.15</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$379,219 ÷ 53,142 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.14</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$7,396)	\$ 1,978,063
Interest	901,133
<b>Total Income</b>	<b>2,879,196</b>
Expenses:	
Management fee	1,734,797
Custodian and accounting fees	101,253
Distribution service fees	73
Auditing	28,313
Legal	4,491
Trustees' fees and expenses	1,875
Reports to shareholders	22,055
Other	6,775
<b>Total expenses, before expense reductions</b>	<b>1,899,632</b>
Expense reductions	(175)
<b>Total expenses, after expense reductions</b>	<b>1,899,457</b>
<b>Net investment income (loss)</b>	<b>979,739</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(26,553,786)
Foreign currency related transactions	(2,444)
	(26,556,230)
Net unrealized appreciation (depreciation) during the period on:	
Investments	(17,714,831)
Foreign currency related transactions	83,571
	(17,631,260)
<b>Net gain (loss) on investment transactions</b>	<b>(44,187,490)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (43,207,751)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ 979,739	\$ 1,159,831
Net realized gain (loss) on investment transactions	(26,556,230)	(21,704,906)
Net unrealized appreciation (depreciation) on investment transactions during the period	(17,631,260)	5,649,609
Net increase (decrease) in net assets resulting from operations	(43,207,751)	(14,895,466)
Distributions to shareholders from:		
Net investment income		
Class A	(1,106,501)	(764,939)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	53,342,724	96,689,692
Reinvestment of distributions	1,106,501	764,939
Cost of shares redeemed	(22,409,232)	(7,406,683)
Net increase (decrease) in net assets from Class A share transactions	32,039,993	90,047,948
<b>Class B*</b>		
Proceeds from shares sold	390,334	—
Cost of shares redeemed	(699)	—
Net increase (decrease) in net assets from Class B share transactions	389,635	—
<b>Increase (decrease) in net assets</b>	<b>(11,884,624)</b>	<b>74,387,543</b>
Net assets at beginning of period	178,848,732	104,461,189
Net assets at end of period (including undistributed net investment income of \$868,707 and \$997,913, respectively)	<b>\$ 166,964,108</b>	<b>\$ 178,848,732</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	19,768,850	10,046,981
Shares sold	6,297,872	10,434,818
Shares issued to shareholders in reinvestment of distributions	123,081	83,812
Shares redeemed	(2,877,071)	(796,761)
Net increase (decrease) in Portfolio shares	3,543,882	9,721,869
Shares outstanding at end of period	<b>23,312,732</b>	<b>19,768,850</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	53,229	—
Shares redeemed	(87)	—
Net increase (decrease) in Portfolio shares	53,142	—
Shares outstanding at end of period	<b>53,142</b>	—

\* For the period July 1, 2002 (commencement of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001 <sup>a</sup>	2000 <sup>b</sup>	1999 <sup>b,c</sup>
<b>Selected Per Share Data</b>				
Net asset value, beginning of period	\$ 9.05	\$ 10.40	\$ 11.49	\$ 10.00
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>d</sup>	.04	.08	.12	—
Net realized and unrealized gain (loss) on investment transactions	(1.89)	(1.36)	(1.16)	1.49
<b>Total from investment operations</b>	<b>(1.85)</b>	<b>(1.28)</b>	<b>(1.04)</b>	<b>1.49</b>
<i>Less distributions from:</i>				
Net investment income	(.05)	(.07)	—	—
Net realized gains on investment transactions	—	—	(.05)	—
<b>Total distributions</b>	<b>(.05)</b>	<b>(.07)</b>	<b>(.05)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 7.15</b>	<b>\$ 9.05</b>	<b>\$ 10.40</b>	<b>\$ 11.49</b>
Total Return (%)	(20.56)	(12.28)	(9.18) <sup>e</sup>	14.93 <sup>e,**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>				
Net assets, end of period (\$ millions)	167	179	104	16
Ratio of expenses before expense reductions (%)	1.04	1.05	1.10	2.58*
Ratio of expenses after expense reductions (%)	1.04	1.05	1.01	1.10*
Ratio of net investment income (loss) (%)	.54	.90	1.07	(.05)*
Portfolio turnover rate (%)	57	48	39	53*

<sup>a</sup> As required, effective January 1, 2001, the Portfolio has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. The effect of this change for the year ended December 31, 2001 was to decrease net investment income by \$.01, increase net realized and unrealized gains and losses by \$.01 and decrease the ratio of net investment income to average net assets from .92% to .90%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.

<sup>b</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>c</sup> For the period from October 29, 1999 (commencement of operations) to December 31, 1999.

<sup>d</sup> Based on average shares outstanding during the period.

<sup>e</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized \*\* Not annualized

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
Net asset value, beginning of period	\$ 7.96
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	.02
Net realized and unrealized gain (loss) on investment transactions	(.84)
<b>Total from investment operations</b>	<b>(.82)</b>
<b>Net asset value, end of period</b>	<b>\$ 7.14</b>
Total Return (%)	(10.30) <sup>**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>	
Net assets, end of period (\$ millions)	.4
Ratio of expenses (%)	1.29*
Ratio of net investment income (loss) (%)	.48*
Portfolio turnover rate (%)	57

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized \*\* Not annualized

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

## SVS Janus Growth Opportunities Portfolio

The year has been described as having one foot on the gas and one foot on the brake. Indeed, consumers continued to spend as businesses held tight, leaving capital expenditures down an estimated 2 percent in 2002. Meanwhile, corporate scandals and accounting missteps, on top of geopolitical concerns weighed on investors' minds and kept the markets volatile. As a result, the S&P 500 Index and Dow Jones Industrial Averages reported their worst December performances since 1931 and finished their first three-year drop since 1939–1941.

Poor stock selection, particularly within the healthcare sector, and an overweight position in the beleaguered utilities industry hurt the Portfolio's results during the period. The portfolio's largest individual detractors included Genentech, Flextronics, General Electric, Citigroup and Liberty Media. With regard to Liberty Media, we remain encouraged by the fact that this media conglomerate recently completed an equity rights offering to satisfy the IRS, and by its stock repurchase efforts. With its premier collection of properties and holdings, Liberty's stock rebounded strongly in the fourth quarter as investors realized it was trading at a significant discount relative to the value of its assets. Improvement in advertising spending also helped boost Liberty's shares. On the upside, top performers in the Portfolio include MGM Grand, Johnson & Johnson, SLM Corp., Weight Watchers and Anheuser-Busch. With its most recent quarterly announcement, Anheuser-Busch, the world's largest brewer, has reported double-digit earnings growth for 16 quarters in a row. Furthermore, management's outlook for pricing and volume growth, both domestic and foreign, continues to be strong for 2003.

Going forward, we expect an economic recovery to be restrained and businesses to keep limiting spending until geopolitical issues ease. However, while still being cognizant of valuations, we have positioned the portfolio slightly more aggressively than at the year's start because we aim to anticipate change, not react to it, through our in-depth stock-by-stock analysis.

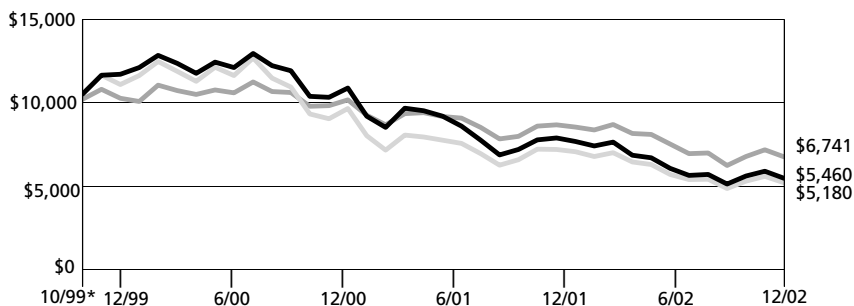
E. Marc Pinto

Lead Manager

Janus Capital Management LLC, Subadvisor to the Portfolio

### Growth of an Assumed \$10,000 Investment in SVS Janus Growth Opportunities Portfolio from 10/29/1999 to 12/31/2002

- SVS Janus Growth Opportunities Portfolio — Class A
- Russell 1000 Growth Index
- S&P 500 Index



The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with greater-than-average growth orientation and represents the universe of stocks from which "earnings/growth" money managers typically select. The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the Russell 1000 Growth Index, which better reflects the Portfolio's investment style, will be shown instead of the S&P 500 Index.

### Average Annual Total Returns<sup>1</sup>

SVS Janus Growth Opportunities Portfolio	1-Year	3-Year	Life of Portfolio <sup>2</sup>
Class A	-30.53%	-22.31%	-17.36% (Since 10/29/1999)*

\* The Portfolio commenced operations on October 29, 1999. Index returns begin on October 31, 1999.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.





## Notes to SVS Janus Growth Opportunities Portfolio of Investments

\* *Non-income producing security.*

- (a) *The cost for federal income tax purposes was \$152,382,148. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$34,773,049. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$2,915,878 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$37,688,927.*
- (b) *Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$151,569,209)	\$ 117,609,099
Dividends receivable	60,632
Receivable for Portfolio shares sold	264,675
Other assets	1,954
<b>Total assets</b>	<b>117,936,360</b>

### Liabilities

Payable for Portfolio shares redeemed	16,899
Accrued management fee	98,308
Other accrued expenses and payables	37,975
<b>Total liabilities</b>	<b>153,182</b>
<b>Net assets, at value</b>	<b>\$ 117,783,178</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	(1,096)
Net unrealized appreciation (depreciation) on investments	(33,960,110)
Accumulated net realized gain (loss)	(80,456,286)
Paid-in capital	232,200,670
<b>Net assets, at value</b>	<b>\$ 117,783,178</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$117,609,766 ÷ 21,572,540 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 5.45</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$173,412 ÷ 31,870 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 5.44</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$9,184)	\$ 1,158,024
Interest	123,140
<b>Total Income</b>	<b>1,281,164</b>
Expenses:	
Management fee	1,319,879
Custodian and accounting fees	45,846
Distribution service fees	33
Auditing	23,066
Legal	2,910
Trustees' fees and expenses	491
Reports to shareholders	18,102
Registration fees	803
Other	5,800
<b>Total expenses, before expense reductions</b>	<b>1,416,930</b>
Expense reductions	(37)
<b>Total expenses, after expense reductions</b>	<b>1,416,893</b>
<b>Net investment income (loss)</b>	<b>(135,729)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(38,279,099)
Net unrealized appreciation (depreciation) during the period on investments	(15,437,773)
<b>Net gain (loss) on investment transactions</b>	<b>(53,716,872)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (53,852,601)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001
Operations:		
Net investment income (loss)	\$ (135,729)	\$ (464,002)
Net realized gain (loss) on investment transactions	(38,279,099)	(39,346,805)
Net unrealized appreciation (depreciation) on investment transactions during the period	(15,437,773)	7,844
Net increase (decrease) in net assets resulting from operations	(53,852,601)	(39,802,963)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	26,777,775	74,073,402
Cost of shares redeemed	(19,218,600)	(9,413,990)
Net increase (decrease) in net assets from Class A share transactions	7,559,175	64,659,412
<b>Class B*</b>		
Proceeds from shares sold	179,925	—
Cost of shares redeemed	(48)	—
Net increase (decrease) in net assets from Class B share transactions	179,877	—
<b>Increase (decrease) in net assets</b>	<b>(46,113,549)</b>	<b>24,856,449</b>
Net assets at beginning of period	163,896,727	139,040,278
Net assets at end of period (including accumulated net investment loss of \$1,096 at December 31, 2002)	<b>\$ 117,783,178</b>	<b>\$ 163,896,727</b>
<b>Other Information</b>		
<b>Class A</b>		
Shares outstanding at beginning of period	20,845,925	13,481,590
Shares sold	3,881,549	8,512,723
Shares redeemed	(3,154,934)	(1,148,388)
Net increase (decrease) in Portfolio shares	726,615	7,364,335
Shares outstanding at end of period	<b>21,572,540</b>	<b>20,845,925</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	31,878	—
Shares redeemed	(8)	—
Net increase (decrease) in Portfolio shares	31,870	—
Shares outstanding at end of period	<b>31,870</b>	—

\* For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001	2000 <sup>a</sup>	1999 <sup>a,b</sup>
<b>Selected Per Share Data</b>				
<b>Net asset value, beginning of period</b>	<b>\$ 7.86</b>	<b>\$ 10.31</b>	<b>\$ 11.64</b>	<b>\$ 10.00</b>
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>c</sup>	(.01)	(.03)	(.02)	—
Net realized and unrealized gain (loss) on investment transactions	(2.40)	(2.42)	(1.31)	1.64
<b>Total from investment operations</b>	<b>(2.41)</b>	<b>(2.45)</b>	<b>(1.33)</b>	<b>1.64</b>
<b>Net asset value, end of period</b>	<b>\$ 5.45</b>	<b>\$ 7.86</b>	<b>\$ 10.31</b>	<b>\$ 11.64</b>
Total Return (%)	(30.53)	(23.76)	(11.42) <sup>d</sup>	16.43 <sup>d,**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>				
Net assets, end of period (\$ millions)	118	164	139	17
Ratio of expenses before expense reductions (%)	1.01	1.11	1.06	2.60*
Ratio of expenses after expense reductions (%)	1.01	1.10	1.01	1.10*
Ratio of net investment income (loss) (%)	(.10)	(.31)	(.20)	(.34)*
Portfolio turnover rate (%)	48	34	14	1*

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Share and per share information, for the periods prior to December 31, 2001, have been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

<sup>b</sup> For the period from October 29, 1999 (commencement of operations) to December 31, 1999.

<sup>c</sup> Based on average shares outstanding during the period.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

	2002 <sup>a</sup>
<b>Selected Per Share Data</b>	
<b>Net asset value, beginning of period</b>	<b>\$ 5.87</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	(.01)
Net realized and unrealized gain (loss) on investment transactions	(.42)
<b>Total from investment operations</b>	<b>(.43)</b>
<b>Net asset value, end of period</b>	<b>\$ 5.44</b>
Total Return (%)	(7.33)**
<b>Ratios to Average Net Assets and Supplemental Data</b>	
Net assets, end of period (\$ millions)	.2
Ratio of expenses (%)	1.29*
Ratio of net investment income (loss) (%)	(.49)*
Portfolio turnover rate (%)	48

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## SVS Oak Strategic Equity Portfolio

The fourth quarter finished on a positive note. We continue to be positive about our portfolios, believing they are positioned to outperform the broader market averages in a more normal market environment.

Digging deeper into the numbers, the greatest contributors to the outperformance in the quarter were the technology and financial services sectors. While the gains were broad-based within our technology holdings, semiconductors and beaten down telecommunications/networking stocks were notable, up an average of 33 percent and 19 percent, respectively. Our financial services sector holdings contributed a 12.5 percent gain, while health care slightly lagged the S&P's quarterly return with a positive gain of 7 percent.

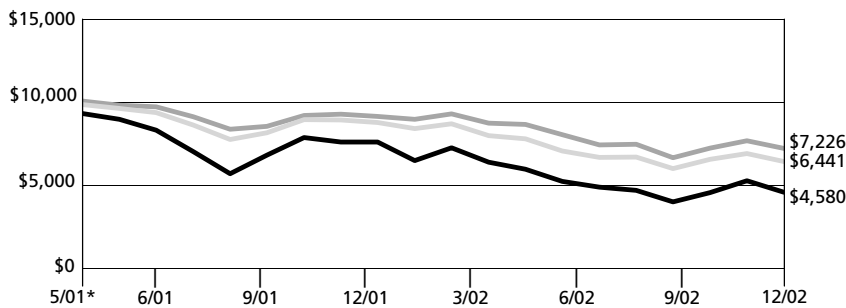
While the SVS Oak Strategic Equity portfolio ended the year with positive fourth quarter returns that were close to double the S&P 500, when reviewing 2002 as a whole, the portfolio did under perform. The market conditions during 2002 provided no real safe haven in the equity markets. However, the technology sector, which represents approximately 50 percent of the portfolio, was hit even harder than most sectors. The other two sectors represented in the portfolio, healthcare and financial services, provided better relative performance than the technology sector, but the results in these names did not outweigh the drag from the technology sector.

In summary, although we have been beaten up and bruised by three down years, four could be the charm. The markets should do well in 2003 provided that we find resolution to a number of the non-economic issues that plagued us in 2002. The corporate scandals are largely behind us, with a heightened degree of positive investor attention and executive focus on corporate governance issues. The conflict with Iraq may be resolved soon, the war on terrorism will likely continue for many years to come. We believe resolution to these items, coupled with the recognition of improved profits and discovery of spendable cash flow by executives, will transition corporate attention away from spending cuts and towards investment and innovation.

James D. Oelschlager  
 Portfolio Manager, Oak Associates, Ltd.  
 Subadvisor to the Portfolio

### Growth of an Assumed \$10,000 Investment in SVS Oak Strategic Equity Portfolio from 5/1/2001 to 12/31/2002

- SVS Oak Strategic Equity Portfolio — Class A
- Russell 1000 Growth Index
- S&P 500 Index



The Russell 1000 Growth Index consists of those stocks in the Russell 1000 Index that have greater-than-average growth orientation. The Standard & Poor's (S&P) 500 Index is a 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 assume reinvested dividends and capital gains and do not reflect fees or expenses; investors cannot directly access an index. Beginning with the next annual report, the Russell 1000 Growth Index, which better reflects the Portfolio's investment style, will be shown instead of the S&P 500 Index.

### Average Annual Total Returns<sup>1</sup>

SVS Oak Strategic Equity Portfolio	1-Year	Life of Portfolio <sup>2</sup>
Class A	-39.74	-37.40% (Since 5/1/2001)*

\* The Portfolio commenced operations on May 1, 2001. Index returns begin April 30, 2001.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower.

Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## SVS Oak Strategic Equity Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 95.2%</b>					
<b>Financials 21.5%</b>					
<b>Diversified Financials 17.6%</b>					
Charles Schwab Corp.	160,000	1,736,000			
Citigroup, Inc.	44,000	1,548,360			
MBNA Corp.	102,700	1,953,354			
Morgan Stanley	49,900	1,992,008			
		<b>7,229,722</b>			
<b>Insurance 3.9%</b>					
American International Group, Inc.	27,800	1,608,230			
<b>Health Care 20.5%</b>					
<b>Health Care Equipment &amp; Supplies 5.6%</b>					
Medtronic, Inc.	50,500	2,302,800			
<b>Health Care Providers &amp; Services 4.9%</b>					
Express Scripts, Inc. "A"*	41,500	1,993,660			
<b>Pharmaceuticals 10.0%</b>					
Eli Lilly & Co.	32,200	2,044,700			
Pfizer, Inc.	67,200	2,054,304			
		<b>4,099,004</b>			
<b>Industrials 4.3%</b>					
<b>Commercial Services &amp; Supplies</b>					
Paychex, Inc.	63,000	1,757,700			
<b>Information Technology 47.4%</b>					
<b>Communications Equipment 8.1%</b>					
Brocade Communications Systems, Inc.*	111,800	462,852			
<b>Computers &amp; Peripherals 4.4%</b>					
Cisco Systems, Inc.*	152,600	1,999,060			
Juniper Networks, Inc.*	126,400	859,520			
		<b>3,321,432</b>			
<b>Semiconductor Equipment &amp; Products 24.6%</b>					
Applied Materials, Inc.*	140,400	1,829,412			
Intel Corp.	108,000	1,681,560			
Linear Technology Corp.	78,700	2,024,164			
Maxim Integrated Products, Inc.	63,450	2,096,388			
PMC-Sierra, Inc.*	82,700	459,812			
Xilinx, Inc.*	96,500	1,987,900			
		<b>10,079,236</b>			
<b>Software 10.3%</b>					
Advent Software, Inc.*	27,000	368,010			
Microsoft Corp.*	38,100	1,969,770			
VERITAS Software Corp.*	121,800	1,902,516			
		<b>4,240,296</b>			
<b>Materials 1.5%</b>					
<b>Paper &amp; Forest Products</b>					
International Paper Co.	17,000	594,490			
<b>Total Common Stocks (Cost \$55,424,864)</b>					<b>39,023,134</b>
<b>Cash Equivalents 4.8%</b>					
Scudder Cash Management QP Trust, 1.4% (b) (Cost \$1,962,196)	1,962,196	1,962,196			
<b>Total Investment Portfolio — 100.0%</b> (Cost \$57,387,060) (a)					<b>40,985,330</b>

## Notes to SVS Oak Strategic Equity Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$57,396,911. At December 31, 2002, net unrealized depreciation for all securities based on tax cost was \$16,411,581. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$431,776 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$16,843,357.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$57,387,060)	\$ 40,985,330
Cash	10,000
Dividends receivable	9,356
Receivable for Portfolio shares sold	93,447
<b>Total assets</b>	<b>41,098,133</b>

### Liabilities

Payable for Portfolio shares redeemed	53
Accrued management fee	50,003
Other accrued expenses and payables	11,023
<b>Total liabilities</b>	<b>61,079</b>
<b>Net assets, at value</b>	<b>\$ 41,037,054</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	(217)
Net unrealized appreciation (depreciation) on investments	(16,401,730)
Accumulated net realized gain (loss)	(6,454,053)
Paid-in capital	63,893,054
<b>Net assets, at value</b>	<b>\$ 41,037,054</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$40,684,515 ÷ 8,877,415 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 4.58</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$352,539 ÷ 77,050 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 4.58</b>
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## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends	\$ 258,484
Interest	29,002
<b>Total Income</b>	<b>287,486</b>
Expenses:	
Management fee	411,997
Custodian and accounting fees	6,570
Distribution service fees	81
Auditing	473
Legal	28
<b>Total expenses, before expense reductions</b>	<b>419,149</b>
Expense reductions	(82)
<b>Total expenses, after expense reductions</b>	<b>419,067</b>
<b>Net investment income (loss)</b>	<b>(131,581)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(6,132,329)
Net unrealized appreciation (depreciation) during the period on investments	(16,366,021)
<b>Net gain (loss) on investment transactions</b>	<b>(22,498,350)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (22,629,931)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001 <sup>a</sup>
Operations:		
Net investment income (loss)	\$ (131,581)	\$ (51,124)
Net realized gain (loss) on investment transactions	(6,132,329)	(321,724)
Net unrealized appreciation (depreciation) on investment transactions during the period	(16,366,021)	(35,709)
Net increase (decrease) in net assets resulting from operations	(22,629,931)	(408,557)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	34,556,591	44,874,963
Cost of shares redeemed	(15,042,811)	(681,426)
Net increase (decrease) in net assets from Class A share transactions	19,513,780	44,193,537
<b>Class B*</b>		
Proceeds from shares sold	368,666	—
Cost of shares redeemed	(441)	—
Net increase (decrease) in net assets from Class B share transactions	368,225	—
<b>Increase (decrease) in net assets</b>	<b>(2,747,926)</b>	<b>43,784,980</b>
Net assets at beginning of period	43,784,980	—
Net assets at end of period (including accumulated net investment loss of \$217 at December 31, 2002)	<b>\$ 41,037,054</b>	<b>\$ 43,784,980</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	5,764,587	—
Shares sold	5,561,607	5,857,695
Shares redeemed	(2,448,779)	(93,108)
Net increase (decrease) in Portfolio shares	3,112,828	5,764,587
Shares outstanding at end of period	<b>8,877,415</b>	<b>5,764,587</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	77,137	—
Shares redeemed	(87)	—
Net increase (decrease) in Portfolio shares	77,050	—
Shares outstanding at end of period	<b>77,050</b>	—

<sup>a</sup> For the period from May 1, 2001 (commencement of operations) to December 31, 2001.

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

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



# Financial Highlights

## Class A

Years Ended December 31,	2002	2001 <sup>a</sup>
<b>Selected Per Share Data</b>		
Net asset value, beginning of period	\$ 7.60	\$ 10.00
<i>Income (loss) from investment operations:</i>		
Net investment income (loss) <sup>b</sup>	(.02)	(.02)
Net realized and unrealized gain (loss) on investment transactions	(3.00)	(2.38)
<b>Total from investment operations</b>	<b>(3.02)</b>	<b>(2.40)</b>
Net asset value, end of period	\$ 4.58	\$ 7.60
Total Return (%)	(39.74)	(24.00) <sup>c**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	41	44
Ratio of expenses before expense reductions (%)	.96	1.44*
Ratio of expenses after expense reductions (%)	.96	1.15*
Ratio of net investment income (loss) (%)	(.30)	(.43)*
Portfolio turnover rate (%)	16	3*

<sup>a</sup> For the period from May 1, 2001 (commencement of operations) to December 31, 2001.

<sup>b</sup> Based on average shares outstanding during the period.

<sup>c</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

2002<sup>a</sup>

### Selected Per Share Data

Net asset value, beginning of period	\$ 5.04
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	(.02)
Net realized and unrealized gain (loss) on investment transactions	(.44)
<b>Total from investment operations</b>	<b>(.46)</b>
Net asset value, end of period	\$ 4.58
Total Return (%)	(9.13)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.4
Ratio of expenses (%)	1.21*
Ratio of net investment income (loss) (%)	(.68)*
Portfolio turnover rate (%)	16

<sup>a</sup> For the period May 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## SVS Turner Mid Cap Growth Portfolio

For the 12 months ended December 31, 2002, the stock market suffered from persistent weakness. During this time period, the SVS Turner Mid Cap Growth Portfolio (Class A shares) recorded a -32.20 percent loss, underperforming the Russell Mid Cap Growth Index's -27.41 percent drop.

Several factors have caused investor sentiment to remain extremely negative for much of the last 12 months. Among the issues testing investor confidence were disclosures of accounting improprieties, uncertainty surrounding terrorism threats and risk of war with Iraq. In addition, the market was under considerable pressure due to concerns about corporate profits and the economy.

Holdings in the health care sector contributed positively to performance for the year. Specific areas of strength included hospital management, medical services and medical distribution companies. While consumer discretionary holdings detracted from the overall portfolio performance, bright spots in that sector included select holdings in several Internet and specialty retailers. The portfolio's holdings in the technology sector, specifically the semiconductor and computer communications industries, detracted the most from performance.

We continue to believe that the market will begin to show gradual improvement during 2003 in response to a strengthening economy and improvement in corporate earnings. Throughout much of the year we emphasized companies positioned as market leaders within their industries. We are now focusing more on companies we believe have the most leverageable advantages coming out of the difficult business environment of the past several years. Many of these companies have streamlined operations and we believe are now positioned to benefit from even moderate increases in revenues.

Christopher K. McHugh

William C. McVail

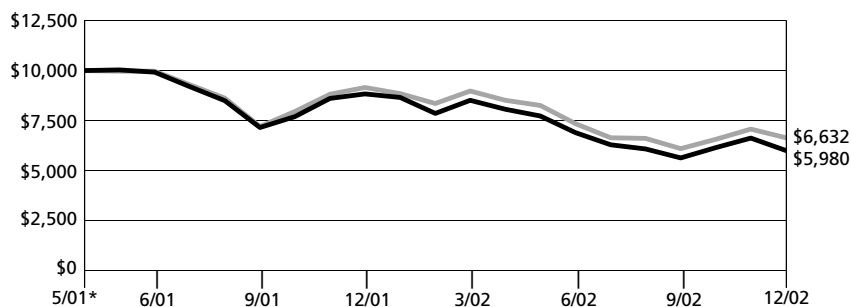
Robert E. Turner

Co-Managers

Turner Investment Partners, Inc., Subadvisor to the Portfolio

### Growth of an Assumed \$10,000 Investment in SVS Turner Mid Cap Growth Portfolio from 5/1/2001 to 12/31/2002

- SVS Turner Mid Cap Growth Portfolio — Class A
- Russell Mid Cap Growth Index



Russell Mid Cap Growth Index is an unmanaged index composed of common stocks of midcap companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and capital gains and, do not reflect fees or expenses; investors cannot directly access an index.

### Average Annual Total Returns<sup>1</sup>

SVS Turner Mid Cap Growth Portfolio	1-Year	Life of Portfolio <sup>2</sup>
Class A	-32.20%	-26.54% (Since 5/1/2001)*

\* The Portfolio commenced operations on May 1, 2001. Index returns begin April 30, 2001.

<sup>1</sup> Average annual total return and total return measure net investment income and capital gain or loss from portfolio investments over the periods specified, assuming reinvestment of all dividends. Average annual total return reflects annualized change while total return reflects aggregate change. Performance is net of the portfolio's management fee and other operating expenses but does not include any deduction at the separate account or contract level for any insurance or surrender charges that may be incurred under a contract. Please see the prospectus for more details.

<sup>2</sup> The investment advisor has agreed to either limit, waive or reduce certain fees temporarily for this portfolio; see the prospectus for complete details. Without such limits, waivers or reductions, the performance figures for this subaccount would be lower. Past performance is not a guarantee of future results. Returns and principal values will fluctuate so that accumulation units, when redeemed, may be worth more or less than original cost.

## SVS Turner Mid Cap Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 97.3%</b>					
<b>Consumer Discretionary 17.9%</b>					
<b>Hotel Restaurants &amp; Leisure 4.6%</b>					
International Game Technology*	10,890	826,769			
MGM Mirage, Inc.*	12,460	410,806			
Panera Bread Co. "A"*	9,710	338,005			
Starbucks Corp.*	15,080	307,330			
Starwood Hotels & Resorts Worldwide, Inc.	18,410	437,053			
The Cheesecake Factory, Inc.*	13,710	495,617			
		<b>2,815,580</b>			
<b>Internet &amp; Catalog Retailing 0.9%</b>					
Amazon.com, Inc.*	30,220	570,856			
<b>Media 2.8%</b>					
Cumulus Media, Inc. "A"*	28,410	421,320			
Lamar Advertising Co.*	13,650	459,323			
Univision Communications, Inc. "A"*	17,360	425,320			
Westwood One, Inc.*	11,660	435,618			
		<b>1,741,581</b>			
<b>Specialty Retail 8.3%</b>					
Advance Auto Parts, Inc.*	11,940	583,866			
Bed Bath & Beyond, Inc.*	25,430	878,098			
CDW Computer Centers, Inc.*	17,730	777,461			
Chico's FAS, Inc.	24,330	460,080			
Michaels Stores, Inc.*	13,000	406,900			
Staples, Inc.*	42,380	775,554			
Tiffany & Co.	20,290	485,134			
Williams-Sonoma, Inc.*	27,840	755,856			
		<b>5,122,949</b>			
<b>Textiles, Apparel &amp; Luxury Goods 1.3%</b>					
Coach, Inc.*	25,290	832,547			
<b>Consumer Staples 3.2%</b>					
<b>Beverages 1.4%</b>					
Coca-Cola Enterprises, Inc.	20,260	440,047			
Pepsi Bottling Group, Inc.	16,480	423,536			
		<b>863,583</b>			
<b>Food &amp; Drug Retailing 1.2%</b>					
Performance Food Group Co.*	8,330	282,878			
Whole Foods Market, Inc.*	8,440	445,041			
		<b>727,919</b>			
<b>Food Products 0.6%</b>					
Hershey Foods Corp.	5,310	358,106			
<b>Energy 4.7%</b>					
<b>Energy Equipment &amp; Services 3.4%</b>					
BJ Services Co.*	17,890	578,026			
Cooper Cameron Corp.*	9,270	461,831			
Halliburton Co.	25,860	483,841			
Nabors Industries Ltd.*	8,410	296,621			
Patterson-UTI Energy, Inc.*	9,170	276,659			
		<b>2,096,978</b>			
<b>Oil &amp; Gas 1.3%</b>					
Murphy Oil Corp.	10,680	457,638			
Pogo Producing Co.	8,640	321,840			
		<b>779,478</b>			
<b>Financials 7.9%</b>					
<b>Banks 1.6%</b>					
Commerce Bancorp, Inc.	9,800	423,262			
Investors Financial Services Corp.	21,320	583,955			
		<b>1,007,217</b>			
<b>Diversified Financials 5.8%</b>					
Affiliated Managers Group, Inc.*	13,110	659,433			
Bear Stearns Companies, Inc.	10,480	622,512			
Countrywide Financial Corp.	5,950	307,318			
Doral Financial Corp.	10,200	291,720			
Legg Mason, Inc.	12,880	625,195			
Neuberger Berman, Inc.	10,050	336,575			
Providian Financial Corp.*	62,930	408,416			
Raymond James Financial, Inc.	10,660	315,323			
		<b>3,566,492</b>			
<b>Insurance 0.5%</b>					
Renaissance Retail Group Ltd.	8,410	333,036			
<b>Health Care 23.8%</b>					
<b>Biotechnology 7.0%</b>					
Biogen, Inc.*	13,260	531,196			
Cephalon, Inc.*	8,430	410,271			
Genzyme Corp. (General Division)*	13,390	395,942			
Gilead Sciences, Inc.*	23,750	807,500			
MedImmune, Inc.*	43,529	1,182,683			
Scios, Inc.*	16,500	537,570			
Trimeris, Inc.*	9,890	426,951			
		<b>4,292,113</b>			
<b>Health Care Equipment &amp; Supplies 2.8%</b>					
Biomet, Inc.	23,060	660,900			
DENTSPLY International, Inc.	11,280	420,056			
St. Jude Medical, Inc.*	4,000	158,880			
Varian Medical Systems, Inc.*	10,520	521,792			
		<b>1,761,628</b>			
<b>Health Care Providers &amp; Services 11.7%</b>					
Accredo Health, Inc.*	16,875	594,844			
AmerisourceBergen Corp.	8,270	449,144			
Anthem, Inc.*	13,820	869,278			
Caremark Rx, Inc.*	38,720	629,200			
Covance, Inc.	29,520	725,897			
Henry Schein, Inc.*	9,400	423,000			
Laboratory Corp. of America Holdings*	16,740	389,038			
LifePoint Hospitals, Inc.*	8,010	239,747			
Mid Atlantic Medical Services, Inc.*	11,270	365,148			
Omnicare, Inc.	11,750	280,003			
Pharmaceutical Product Development, Inc.*	22,380	655,063			
Universal Health Services, Inc. "B"*	11,170	503,767			

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

	Shares	Value (\$)		Shares	Value (\$)
Wellpoint Health Networks, Inc.*	15,250	1,085,190	VeriSign, Inc.	62,940	504,779
		<b>7,209,319</b>	Yahoo!, Inc.*	48,060	785,781
<b>Pharmaceuticals 2.3%</b>					<b>1,725,164</b>
Allergan, Inc.	10,000	576,200	<b>IT Consulting &amp; Services 0.9%</b>		
Teva Pharmaceutical Industries Ltd. (ADR)	12,740	491,891	SunGard Data Systems, Inc.*	23,530	<b>554,367</b>
Watson Pharmaceuticals, Inc.*	11,490	324,822	<b>Semiconductor Equipment &amp; Products 8.4%</b>		
		<b>1,392,913</b>	Cabot Microelectronics Corp.*	7,850	370,520
<b>Industrials 9.5%</b>			Cymer, Inc.*	23,360	753,360
<b>Airlines 0.6%</b>			KLA-Tencor Corp.*	25,690	908,655
AMR Corp.*	59,650	<b>393,690</b>	Lam Research Corp.*	26,460	285,768
<b>Commercial Services &amp; Supplies 7.9%</b>			Novellus Systems, Inc.*	32,010	898,841
Apollo Group, Inc. "A"*	10,555	464,420	NVIDIA Corp.*	25,900	298,109
Avery Dennison Corp.	9,650	589,422	PMC-Sierra, Inc.*	54,810	304,744
Convergys Corp.*	29,540	447,531	QLogic Corp.*	7,000	241,570
DST Systems, Inc.*	13,430	477,437	RF Micro Devices, Inc.*	25,640	187,941
Fiserv, Inc.*	26,000	882,700	Skyworks Solutions, Inc.*	60,460	521,165
FTI Consulting, Inc.*	8,670	348,101	Teradyne, Inc.*	29,850	388,349
Manpower, Inc.	14,690	468,611			<b>5,159,022</b>
Robert Half International, Inc.*	31,340	504,887	<b>Software 7.4%</b>		
The Corporate Executive Board Co.*	8,580	273,874	Adobe Systems, Inc.	27,360	681,538
Weight Watchers International, Inc.*	8,660	398,100	BEA Systems, Inc.*	56,360	646,449
		<b>4,855,083</b>	Citrix Systems, Inc.*	26,500	326,480
<b>Machinery 1.0%</b>			Electronic Arts, Inc.*	15,110	752,025
Navistar International Corp.	25,370	<b>616,745</b>	Mercury Interactive Corp.*	21,540	638,661
<b>Information Technology 26.8%</b>			Network Associates, Inc.*	29,420	473,368
<b>Communications Equipment 4.9%</b>			PeopleSoft, Inc.*	24,250	443,775
CIENA Corp.*	89,290	458,951	Symantec Corp.*	15,110	611,200
Converse Technologies, Inc.*	60,920	610,418			<b>4,573,496</b>
JDS Uniphase Corp.*	139,020	343,379	<b>Materials 1.8%</b>		
Juniper Networks, Inc.*	60,810	413,508	<b>Chemicals 1.1%</b>		
Nortel Networks Corp.*	315,980	508,728	Ecolab, Inc.	13,240	<b>655,380</b>
Tellabs, Inc.*	98,150	713,551	<b>Containers &amp; Packaging 0.7%</b>		
		<b>3,048,535</b>	Ball Corp.	8,980	<b>459,686</b>
<b>Computers &amp; Peripherals 1.9%</b>			<b>Telecommunication Services 1.7%</b>		
Lexmark International, Inc.*	10,440	631,620	<b>Wireless Telecommunication Services</b>		
Network Appliance, Inc.*	53,340	533,400	Nextel Communications, Inc. "A"*	91,560	<b>1,057,513</b>
		<b>1,165,020</b>	<b>Total Common Stocks (Cost \$58,130,874)</b>		<b>60,047,422</b>
<b>Electronic Equipment &amp; Instruments 0.5%</b>					
Agilent Technologies, Inc.*	17,340	<b>311,426</b>	<b>Cash Equivalents 2.7%</b>		
<b>Internet Software &amp; Services 2.8%</b>			Scudder Cash Management QP Trust, 1.4% (b) (Cost \$1,636,964)	1,636,964	<b>1,636,964</b>
Internet Security Systems, Inc.*	23,710	434,604	<b>Total Investment Portfolio — 100.0%</b> (cost \$59,767,838) (a)		<b>61,684,386</b>

## Notes to SVS Turner Mid Cap Growth Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$60,923,294. At December 31, 2002, net unrealized appreciation for all securities based on tax cost was \$761,092. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$3,862,449 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$3,101,357.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2002

### Assets

Investments in securities, at value (cost \$59,767,838)	\$ 61,684,386
Cash	10,000
Receivable for investments sold	558,456
Dividends receivable	21,355
Interest receivable	1,693
Receivable for Portfolio shares sold	65,739
Other assets	965
<b>Total assets</b>	<b>62,342,594</b>

### Liabilities

Payable for investments purchased	857,389
Payable for Portfolio shares redeemed	17
Accrued management fee	70,994
Other accrued expenses and payables	25,857
<b>Total liabilities</b>	<b>954,257</b>
<b>Net assets, at value</b>	<b>\$ 61,388,337</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	(224)
Net unrealized appreciation (depreciation) on investments	1,916,548
Accumulated net realized gain (loss)	(24,935,592)
Paid-in capital	84,407,605
<b>Net assets, at value</b>	<b>\$ 61,388,337</b>

### Class A

**Net Asset Value**, offering and redemption price per share (\$60,810,821 ÷ 10,171,623 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized) **\$ 5.98**

### Class B

**Net Asset Value**, offering and redemption price per share (\$577,516 ÷ 96,707 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized) **\$ 5.97**

## Statement of Operations for the year ended December 31, 2002

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$333)	\$ 137,722
Interest	51,211
<b>Total Income</b>	<b>188,933</b>
Expenses:	
Management fee	614,364
Custodian and accounting fees	66,487
Distribution service fees	107
Auditing	7,876
Legal	1,624
Reports to shareholders	1,406
Other	3,355
<b>Total expenses, before expense reductions</b>	<b>695,219</b>
Expense reductions	(165)
<b>Total expenses, after expense reductions</b>	<b>695,054</b>
<b>Net investment income (loss)</b>	<b>(506,121)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(21,909,720)
Net unrealized appreciation (depreciation) during the period on investments	(2,467,410)
<b>Net gain (loss) on investment transactions</b>	<b>(24,377,130)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (24,883,251)</b>

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

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2002	2001 <sup>a</sup>
Operations:		
Net investment income (loss)	\$ (506,121)	\$ (86,000)
Net realized gain (loss) on investment transactions	(21,909,720)	(3,025,872)
Net unrealized appreciation (depreciation) on investment transactions during the period	(2,467,410)	4,383,958
Net increase (decrease) in net assets resulting from operations	(24,883,251)	1,272,086
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	46,715,731	48,203,751
Cost of shares redeemed	(9,232,385)	(1,285,187)
Net increase (decrease) in net assets from Class A share transactions	37,483,346	46,918,564
<b>Class B*</b>		
Proceeds from shares sold	597,955	—
Cost of shares redeemed	(363)	—
Net increase (decrease) in net assets from Class B share transactions	597,592	—
<b>Increase (decrease) in net assets</b>	<b>13,197,687</b>	<b>48,190,650</b>
Net assets at beginning of period	48,190,650	—
Net assets at end of period (including accumulated net investment loss of \$224 at December 31, 2002)	<b>\$ 61,388,337</b>	<b>\$ 48,190,650</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	5,463,686	—
Shares sold	6,040,022	5,595,450
Shares redeemed	(1,332,085)	(131,764)
Net increase (decrease) in Portfolio shares	4,707,937	5,463,686
Shares outstanding at end of period	<b>10,171,623</b>	<b>5,463,686</b>
<b>Class B*</b>		
Shares outstanding at beginning of period	—	—
Shares sold	96,763	—
Shares redeemed	(56)	—
Net increase (decrease) in Portfolio shares	96,707	—
Shares outstanding at end of period	<b>96,707</b>	—

<sup>a</sup> For the period from May 1, 2001 (commencement of operations) to December 31, 2001.

\* For the period from July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

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

# Financial Highlights

## Class A

Years Ended December 31,	2002	2001 <sup>a</sup>
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### Selected Per Share Data

<b>Net asset value, beginning of period</b>	<b>\$ 8.82</b>	<b>\$ 10.00</b>
<i>Income (loss) from investment operations:</i>		
Net investment income (loss) <sup>b</sup>	(.06)	(.04)
Net realized and unrealized gain (loss) on investment transactions	(2.78)	(1.14) <sup>c</sup>
<b>Total from investment operations</b>	<b>(2.84)</b>	<b>(1.18)</b>
<b>Net asset value, end of period</b>	<b>\$ 5.98</b>	<b>\$ 8.82</b>
Total Return (%)	(32.20)	(11.80) <sup>d**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	61	48
Ratio of expenses before expense reductions (%)	1.13	1.82*
Ratio of expenses after expense reductions (%)	1.13	1.30*
Ratio of net investment income (loss) (%)	(.82)	(.76)*
Portfolio turnover rate (%)	225	205*

<sup>a</sup> For the period from May 1, 2001 (commencement of operations) to December 31, 2001.

<sup>b</sup> Based on average shares outstanding during the period.

<sup>c</sup> The amount of net realized and unrealized gain shown for a share outstanding for the period ending December 31, 2001 does not correspond with the aggregate net loss on investments for the period due to the timing of sales and repurchases of Portfolio shares in relation to fluctuating market values of the investments of the Portfolio.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

2002<sup>a</sup>

### Selected Per Share Data

<b>Net asset value, beginning of period</b>	<b>\$ 6.60</b>
<i>Income (loss) from investment operations:</i>	
Net investment income (loss) <sup>b</sup>	(.02)
Net realized and unrealized gain (loss) on investment transactions	(.61)
<b>Total from investment operations</b>	<b>(.63)</b>
<b>Net asset value, end of period</b>	<b>\$ 5.97</b>
Total Return (%)	(9.55) <sup>**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	.6
Ratio of expenses (%)	1.38*
Ratio of net investment income (loss) (%)	(.81)*
Portfolio turnover rate (%)	225

<sup>a</sup> For the period July 1, 2002 (commencement of sales of Class B shares) to December 31, 2002.

<sup>b</sup> Based on an average shares outstanding during the period.

\* Annualized

\*\* Not annualized

# Notes to Financial Statements

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## A. Significant Accounting Policies

Scudder Variable Series II (the “Trust”) is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end, diversified management investment company organized as a Massachusetts business trust. Effective May 1, 2002, the Trust commenced offering SVS MFS Strategic Value Portfolio. The Trust offers twenty-seven portfolios (the “portfolio(s)”).

**Multiple Classes of Shares of Beneficial Interest.** The Trust offers one class of shares for the Scudder Strategic Income Portfolio. Two classes of shares (Class A shares and Class B shares) are offered for each of the other Portfolios. Sales of Class B shares commenced July 1, 2002 and are subject to a Rule 12b-1 fees under the 1940 Act, equal to an annual rate of up to 0.25% of the average daily net assets value of the Class B shares of the applicable Portfolio. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain portfolio-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 fee). 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 Trust’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Trust 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. Equity securities are valued at the most recent sale price reported on the exchange (US or foreign) or over-the-counter market on which the security is traded most extensively. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation.

Debt securities are valued by independent pricing services approved by the Trustees of the portfolio. If the pricing services are unable to provide valuations, the 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.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end investments companies and Scudder Cash Management QP Trust are valued at their net asset value each business day.

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.

**Foreign Currency Translations.** The books and records of the Trust are maintained in US dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into US dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into US 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 disposition of forward foreign currency exchange contracts and foreign currencies and the difference between the amount of net investment income accrued and the US 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 gains and losses on investment securities.

**Repurchase Agreements.** The portfolios may enter into repurchase agreements with certain banks and broker/dealers whereby the portfolios, through their custodian or sub-custodian bank, receive 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.

**Options.** An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. Certain options, including options on indices, will require cash settlement by the portfolio if the option is exercised. The portfolios may enter into option contracts in order to hedge against potential adverse price movements in the value of portfolio assets; as a temporary substitute for selling selected investments; to lock in the purchase price of a security or currency which it expects to purchase in the near future; as a temporary substitute for purchasing selected investments; and to enhance potential gain.

The liability representing the portfolio’s obligation under an exchange traded written option or investment in a purchased option is 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 and asked price are available. Over-the-counter written or purchased options are valued using dealer-supplied quotations. Gain or loss is recognized when the option contract expires or is closed.

If the portfolio writes a covered call option, the portfolio 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 portfolio 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 portfolio'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 portfolio'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.

**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). The portfolios may enter into futures contracts as a hedge against anticipated interest rate, currency or equity market changes and for duration management, risk management and return enhancement purposes.

Upon entering into a futures contract, the portfolio is required to deposit with a financial intermediary an amount ("initial margin") equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the portfolio dependent upon the daily fluctuations in the value of the underlying security and are recorded for financial reporting purposes as unrealized gains or losses by the portfolio. When entering into a closing transaction, the portfolio will realize a gain or loss equal to the difference between the value of the futures contract to sell and the futures contract to buy. Futures contracts are valued at the most recent settlement price.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid secondary market will limit the portfolio's ability to close out a futures contract prior to the settlement date and that a change in the value of a futures contract may not correlate exactly with the changes in the value of the securities or currencies hedged. When utilizing futures contracts to hedge, the portfolio gives up the opportunity to profit from favorable price movements in the hedged positions during the term of the contract.

**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 portfolios may enter 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. Sales and purchases of forward currency contracts having the same settlement date and broker are offset and any gain (loss) is realized on the date of offset; otherwise, gain (loss) is realized on settlement date. Realized and unrealized gains and losses which represent the difference between the value of a forward currency contract to buy and a forward currency contract to sell are included in net realized and unrealized gain (loss) from foreign currency related transactions.

Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. Additionally, when utilizing forward currency contracts to hedge, the portfolio gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

**Mortgage Dollar Rolls.** The Scudder Government Securities Portfolio and Scudder Total Return Portfolio entered into mortgage dollar rolls in which each portfolio sells mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase similar, but not identical, securities on a fixed date. Each portfolio receives compensation as consideration for entering into the commitment to repurchase. The compensation is paid in the form of a fee which is recorded as deferred income and amortized to income over the roll period, or alternatively, a lower price for the security upon its repurchase. Mortgage dollar rolls may be renewed with a new sale and repurchase price and a cash settlement made at each renewal without physical delivery of the securities subject to the contract.

Certain risks may arise upon entering into mortgage dollar rolls from the potential inability of counterparties to meet the terms of their commitments. Additionally, the value of such securities may change adversely before the portfolio is able to repurchase them.

**When-Issued/Delayed Delivery Securities.** Several of the portfolios may purchase securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the portfolio enters into a commitment to purchase a security, the transaction is recorded and the value of the security 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. No interest accrues to the portfolio until payment takes place. At the time the portfolio enters into this type of transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery securities from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

**Federal Income Taxes.** The portfolios' 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 and tax-exempt income to its shareholders. Accordingly, the portfolios paid no federal income taxes and no federal income tax provision was required.

At December 31, 2002, the following portfolios had an approximate net tax basis capital loss carryforward which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until the following expiration dates, whichever occurs first:

Portfolio	Capital Loss Carryforward (\$)	Expiration Date
Scudder Aggressive Growth Portfolio	3,153,000	12/31/2008
	5,489,000	12/31/2009
	8,989,000	12/31/2010
Scudder Blue Chip Portfolio	2,007,000	12/31/2006
	2,837,000	12/31/2008
	33,492,000	12/31/2009
	21,980,000	12/31/2010
Scudder Contrarian Value Portfolio	19,935,000	12/31/2008
	11,765,000	12/31/2010
Scudder Global Blue Chip Portfolio	2,711,000	12/31/2009
	4,724,000	12/31/2010
Scudder Growth Portfolio	127,000	12/31/2007
	94,268,000	12/31/2009
	39,545,000	12/31/2010
Scudder High Income Portfolio	2,026,000	12/31/2003
	12,052,000	12/31/2007
	16,114,000	12/31/2008
	22,935,000	12/31/2009
	55,108,000	12/31/2010
Scudder International Select Equity Portfolio	130,000	12/31/2007
	3,819,000	12/31/2008
	30,360,000	12/31/2009
	20,016,000	12/31/2010
Scudder Investment Grade Bond Portfolio	1,614,000	12/31/2008
Scudder Small Cap Growth Portfolio	87,907,000	12/31/2009
	62,668,000	12/31/2010
Scudder Technology Growth Portfolio	8,613,000	12/31/2008
	94,141,000	12/31/2009
	93,500,000	12/31/2010
Scudder Total Return Portfolio	57,276,000	12/31/2009
	8,813,000	12/31/2010
SVS Davis Venture Value Portfolio	127,000	12/31/2009
	4,386,000	12/31/2010
SVS Dreman Financial Services Portfolio	2,341,000	12/31/2009
	2,479,000	12/31/2010
SVS Dreman High Return Equity Portfolio	21,004,000	12/31/2010
SVS Eagle Focused Large Cap Growth Portfolio	1,336,000	12/31/2008
	7,025,000	12/31/2009
	13,889,000	12/31/2010
SVS Focus Value+Growth Portfolio	9,619,000	12/31/2009
	15,209,000	12/31/2010

<b>Portfolio</b>	<b>Capital Loss Carryforward (\$)</b>	<b>Expiration Date</b>
SVS Index 500 Portfolio	448,000	12/31/2008
	3,267,000	12/31/2009
	9,116,000	12/31/2010
SVS INVESCO Dynamic Growth Portfolio	317,000	12/31/2009
	6,175,000	12/31/2010
SVS Janus Growth and Income Portfolio	3,871,000	12/31/2008
	16,173,000	12/31/2009
	29,907,000	12/31/2010
SVS Janus Growth Opportunities Portfolio	2,379,000	12/31/2008
	31,299,000	12/31/2009
	42,499,000	12/31/2010
SVS Oak Strategic Equity Portfolio	322,000	12/31/2009
	4,400,000	12/31/2010
SVS Turner Mid Cap Growth Portfolio	2,384,000	12/31/2009
	21,233,000	12/31/2010

Scudder Growth Portfolio inherited approximately \$127,000 of capital losses from its merger with Scudder Variable Life Large Company Growth Portfolio on April 30, 2001, which may be applied against any realized net taxable capital gains in future years or until December 31, 2007, the respective date, whichever occurs first, subject to certain limitations imposed by Section 382 of the Internal Revenue Code.

In addition, the Scudder International Select Equity Portfolio inherited approximately \$10,886,000 of capital losses from its merger with Scudder New Europe Portfolio (see Note J), which may be applied against any realized net taxable capital gains in future years or until December 31, 2007 (\$130,000), December 31, 2008 (\$3,819,000), and December 31, 2009 (\$6,937,000), the respective expiration dates, whichever occurs first, subject to certain limitations imposed by Section 382 of the Internal Revenue Code.

For the period from November 1, 2002 through December 31, 2002, the following portfolios incurred approximate net realized capital losses as follows:

<b>Portfolio</b>	<b>Net Realized Capital Loss (\$)</b>
Scudder Aggressive Growth Portfolio	16,920,000
Scudder Blue Chip Portfolio	11,334,000
Scudder Contrarian Value Portfolio	3,818,000
Scudder Global Blue Chip Portfolio	1,515,000
Scudder Government Securities Portfolio	104,000
Scudder Growth Portfolio	12,553,000
Scudder High Income Portfolio	12,461,000
Scudder International Select Equity Portfolio	1,906,000
Scudder Small Cap Growth Portfolio	16,991,000
Scudder Technology Growth Portfolio	3,071,000
Scudder Total Return Portfolio	27,985,000
SVS Dreman Financial Services Portfolio	100
SVS Dreman High Return Equity Portfolio	20,268,000
SVS Dreman Small Cap Value Portfolio	12,566,000
SVS Eagle Focused Large Cap Growth Portfolio	1,830,000
SVS Focus Value+Growth Portfolio	6,189,000
SVS Index 500 Portfolio	1,337,000
SVS INVESCO Dynamic Growth Portfolio	765,000
SVS Janus Growth Opportunities Portfolio	3,466,000
SVS Oak Strategic Equity Portfolio	1,722,000
SVS Turner Mid Cap Growth Portfolio	164,000

As permitted by tax regulations, the portfolios intend to elect to defer these losses and treat them as arising in the fiscal year ended December 31, 2003.

**Distribution of Income and Gains.** Distributions of net investment income, if any, for all portfolios except the Scudder Money Market Portfolio, are made annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the portfolio if not distributed and, therefore, will be distributed to shareholders at least annually. All of the net investment income of the Scudder Money Market Portfolio is declared as a daily dividend and is distributed to shareholders monthly. For the purpose of the daily dividend, net investment income includes all realized gains (losses) on portfolio securities.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. 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, a portfolio may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the portfolio.

At December 31, 2002, the portfolios' components of distributable earnings on a tax basis are as follows:

Portfolio	Undistributed ordinary income (\$)	Undistributed net long-term capital gains (\$)	Capital loss carryforwards (\$)	Unrealized appreciation (depreciation) on investments (\$)
Scudder Aggressive Growth Portfolio	—	—	(17,631,000)	(11,388,813)
Scudder Blue Chip Portfolio	1,275,142	—	(60,316,000)	(6,288,396)
Scudder Contrarian Value Portfolio	4,285,708	—	(31,700,000)	(26,977,293)
Scudder Global Blue Chip Portfolio	136,960	—	(7,435,000)	(4,339,552)
Scudder Government Securities Portfolio	24,048,334	649,165	—	6,827,177
Scudder Growth Portfolio	247,291	—	(133,940,000)	(24,768,191)
Scudder High Income Portfolio	29,833,814	—	(108,235,000)	(52,960,018)
Scudder International Select Equity Portfolio	1,477,837	—	(54,325,000)	(6,640,650)
Scudder Investment Grade Bond Portfolio	7,798,154	—	(1,614,000)	5,135,027
Scudder Money Market Portfolio	—	—	—	—
Scudder Small Cap Growth Portfolio	—	—	(150,575,000)	(1,633,374)
Scudder Strategic Income Portfolio	819,754	17,624	—	3,311,073
Scudder Technology Growth Portfolio	—	—	(196,254,000)	(133,313,518)
Scudder Total Return Portfolio	18,372,347	—	(66,089,000)	(46,599,528)
SVS Davis Venture Value Portfolio	866,534	—	(4,513,000)	(20,767,996)
SVS Dreman Financial Services Portfolio	1,797,871	—	(4,820,000)	(5,732,596)
SVS Dreman High Return Equity Portfolio	11,110,116	—	(21,004,000)	(74,970,942)
SVS Dreman Small Cap Value Portfolio	3,038,509	4,025,454	—	(21,618,901)
SVS Eagle Focused Large Cap Growth Portfolio	—	—	(22,250,000)	(8,034,364)
SVS Focus Value+Growth Portfolio	823,949	—	(24,828,000)	(18,924,646)
SVS Index 500 Portfolio	2,668,886	—	(12,831,000)	(77,556,437)
SVS INVESCO Dynamic Growth Portfolio	—	—	(6,492,000)	(1,417,971)
SVS Janus Growth and Income Portfolio	952,875	—	(49,951,000)	(20,762,943)
SVS Janus Growth Opportunities Portfolio	—	—	(76,177,000)	(34,773,049)
SVS Oak Strategic Equity Portfolio	—	—	(4,722,000)	(16,411,581)
SVS Turner Mid Cap Growth Portfolio	—	—	(23,617,000)	761,092

In addition, during the year ended December 31, 2002 the tax character of distributions paid to shareholders by the portfolios is summarized as follows:

Portfolio	Distributions from ordinary income* (\$)	Distributions from long-term capital gains (\$)	Distributions from return of capital (\$)
Scudder Aggressive Growth Portfolio	257,547	—	—
Scudder Blue Chip Portfolio	811,699	—	—
Scudder Contrarian Value Portfolio	3,673,679	—	—
Scudder Global Blue Chip Portfolio	282,572	—	—

Portfolio	Distributions from ordinary income* (\$)	Distributions from long-term capital gains (\$)	Distributions from return of capital (\$)
Scudder Government Securities Portfolio	11,715,627	—	—
Scudder High Income Portfolio	31,372,534	—	—
Scudder International Select Equity Portfolio	514,449	—	—
Scudder Investment Grade Bond Portfolio	5,123,396	—	—
Scudder Money Market Portfolio	8,119,785	—	—
Scudder Strategic Income Portfolio	775,880	—	—
Scudder Technology Growth Portfolio	313,166	—	—
Scudder Total Return Portfolio	21,620,590	—	—
SVS Davis Venture Value Portfolio	189,351	—	—
SVS Dreman Financial Services Portfolio	1,016,304	—	—
SVS Dreman High Return Equity Portfolio	4,924,989	1,523,210	—
SVS Dreman Small Cap Value Portfolio	910,198	—	—
SVS Focus Value+Growth Portfolio	658,082	—	—
SVS Index 500 Portfolio	1,192,208	—	—
SVS Janus Growth and Income Portfolio	1,106,501	—	—

\* For tax purposes short-term capital gains distributions are considered ordinary income distributions.

**Expenses.** Expenses arising in connection with a specific portfolio are allocated to that portfolio. Other Trust expenses are allocated between the portfolios in proportion to their relative net assets.

**Other.** Investment transactions are accounted for on the 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 portfolio is informed of such dividends. 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 all portfolios except the Scudder Total Return Portfolio. All discounts and premiums for the Scudder Total Return Portfolio are accreted/amortized for financial reporting purposes only.

## B. Investment Transactions

During the year ended December 31, 2002, purchases and sales of investment transactions (excluding short-term investments) were as follows:

Portfolio	Purchases (\$)	Proceeds from Sales (\$)
Scudder Aggressive Growth Portfolio	41,791,446	31,336,695
Scudder Blue Chip Portfolio	400,224,408	405,711,001
Scudder Contrarian Value Portfolio	209,183,103	190,477,719
Scudder Global Blue Chip Portfolio excluding direct US Government obligations and short-term investments	26,151,191	16,323,415
direct US Government obligations	502,363	1,322,100
Scudder Government Securities Portfolio: excluding direct US Government obligations, short-term investments and mortgage dollar roll transactions	2,205,672,602	1,945,822,890
direct US Government obligations	233,820,107	241,203,463
mortgage dollar roll transactions	477,261,625	478,794,041
Scudder Growth Portfolio	120,034,430	170,604,719
Scudder High Income Portfolio: excluding direct US Government obligations and short-term investments	315,930,193	258,822,347
direct US Government obligations	109,389,575	155,182,056
Scudder International Select Equity Portfolio	210,727,972	203,544,000
Scudder Investment Grade Bond Portfolio: excluding direct US Government obligations, short-term investments and mortgage dollar roll transaction	297,945,232	220,563,444
direct US Government Obligations	223,079,801	209,652,959
Scudder Small Cap Growth Portfolio	116,261,706	124,631,454

<b>Portfolio</b>	<b>Purchases (\$)</b>	<b>Proceeds from Sales (\$)</b>
Scudder Strategic Income Portfolio		
excluding direct US Government obligations and short-term investments	36,251,994	13,680,682
direct US Government obligations	25,629,815	9,421,435
Scudder Technology Growth Portfolio	203,877,000	152,250,211
Scudder Total Return Portfolio		
excluding direct US Government obligations, short-term investments and mortgage dollar roll transactions	710,283,922	673,499,772
direct US Government obligations	307,868,885	401,329,300
mortgage dollar roll transactions	40,582,783	40,748,984
SVS Davis Venture Value Portfolio	100,713,491	29,774,477
SVS Dreman Financial Services Portfolio	40,569,350	16,707,275
SVS Dreman High Return Equity Portfolio	300,337,190	85,163,907
SVS Dreman Small Cap Value Portfolio	317,006,860	211,965,795
SVS Eagle Focused Large Cap Growth Portfolio	103,821,310	78,175,797
SVS Focus Value+Growth Portfolio	129,820,483	127,941,415
SVS Index 500 Portfolio	102,013,041	15,016,158
SVS INVESCO Dynamic Growth Portfolio	32,313,497	18,634,878
SVS Janus Growth and Income Portfolio		
excluding direct US Government obligations and short-term investments	121,018,271	72,586,559
direct US Government obligations	14,882,741	8,111,177
SVS Janus Growth Opportunities Portfolio	80,054,420	64,592,350
SVS Oak Strategic Equity Portfolio	26,343,155	6,870,758
SVS Turner Mid Cap Growth Portfolio	170,284,960	132,690,475

For the year ended December 31, 2002, transactions for written options were as follows for the Scudder Aggressive Growth Portfolio:

	<b>Contracts</b>	<b>Premium (\$)</b>
Beginning of period	—	—
Written	1,231	90,211
Closed	—	—
Exercised	(541)	(51,028)
Expired	(690)	(39,183)
End of period	—	—

For the year ended December 31, 2002, transactions for written options were as follows for the Scudder Small Cap Growth Portfolio:

	<b>Contracts</b>	<b>Premium (\$)</b>
Beginning of period	—	—
Written	650	47,913
Closed	—	—
Exercised	—	—
Expired	(650)	(47,913)
End of period	—	—

For the year ended December 31, 2002, transactions for written options were as follows for the Scudder Technology Growth Portfolio:

	<b>Contracts</b>	<b>Premium (\$)</b>
Beginning of period	648	111,452
Written	2,240	278,913

	Contracts	Premium (\$)
Closed	(1,531)	(214,399)
Exercised	—	—
Expired	(1,357)	(175,966)
End of period	—	—

### C. Related Parties

On April 5, 2002, Zurich Scudder Investments, Inc. (“ZSI”) was acquired by Deutsche Bank AG. Deutsche Bank AG acquired 100% of ZSI with the exception of Threadneedle Investments in the UK. Upon the closing of this transaction, ZSI became part of Deutsche Asset Management and changed its name to Deutsche Investment Management Americas Inc. (“DeIM” or the “Advisor”). Effective April 5, 2002, the investment management agreements with ZSI were terminated and DeIM became the investment advisor for the portfolios. The management fee rate paid by the portfolios under the new Investment Management Agreement (the “Management Agreement”) is the same in all material respects as the previous management agreement except that the investment management fee rate applicable to the SVS Index 500 Portfolio is lower, as shown below on page. 183.

**Management Agreement.** Under the Management Agreement the Advisor directs the investments of the portfolios 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 portfolios. In addition to portfolio management services, the Advisor provides certain administrative services in accordance with the Management Agreement. Accordingly, for the year ended December 31, 2002, the fees pursuant to the Management Agreement were equivalent to the annual effective rates shown below of the portfolios’ average daily net assets:

Portfolio	Annual Management Fee Rate
Scudder Blue Chip Portfolio	0.65%
Scudder Contrarian Value Portfolio	0.75%
Scudder Government Securities Portfolio	0.55%
Scudder Growth Portfolio	0.60%
Scudder High Income Portfolio	0.60%
Scudder International Select Equity Portfolio	0.75%
Scudder Investment Grade Bond Portfolio	0.60%
Scudder Money Market Portfolio	0.50%
Scudder Small Cap Growth Portfolio	0.65%
Scudder Strategic Income Portfolio	0.65%
Scudder Total Return Portfolio	0.55%
SVS Dreman Small Cap Value Portfolio	0.75%
SVS Focus Value+Growth Portfolio	0.75%

The Scudder Aggressive Growth Portfolio, Scudder Technology Growth Portfolio, SVS Dreman Financial Services Portfolio and SVS Dreman High Return Equity Portfolio each pay a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

Average Daily Net Assets of the Portfolio	Annual Management Fee Rate
\$0–\$250 million	0.75%
next \$750 million	0.72%
next \$1.5 billion	0.70%
next \$2.5 billion	0.68%
next \$2.5 billion	0.65%
next \$2.5 billion	0.64%
next \$2.5 billion	0.63%
Over \$12.5 billion	0.62%

Accordingly, for the year ended December 31, 2002, the fees pursuant to the Management Agreement were equivalent to the annual effective rates shown below of the portfolios' average daily net assets:

<b>Portfolio</b>	<b>Effective Rate</b>
Scudder Aggressive Growth Portfolio	0.75%
Scudder Technology Growth Portfolio	0.75%
SVS Dreman Financial Services Portfolio	0.75%
SVS Dreman High Return Equity Portfolio	0.73%

SVS INVESCO Dynamic Growth Portfolio and SVS Turner Mid Cap Growth Portfolio each pay a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

<b>Average Daily Net Assets of the Portfolio</b>	<b>Annual Management Fee Rate</b>
\$0-\$250 million	1.000%
next \$250 million	0.975%
next \$500 million	0.950%
next \$1.5 billion	0.925%
Over \$2.5 billion	0.900%

Accordingly, for the year ended December 31, 2002, the fees pursuant to the Management Agreement were equivalent to the annual effective rates shown below of the portfolios' average daily net assets:

<b>Portfolio</b>	<b>Effective Rate</b>
SVS INVESCO Dynamic Growth Portfolio	1.00%
SVS Turner Mid Cap Growth Portfolio	1.00%

SVS Davis Venture Value Portfolio, SVS Eagle Focused Large Cap Growth Portfolio, SVS Janus Growth and Income Portfolio, SVS Janus Growth Opportunities Portfolio and SVS Oak Strategic Equity Portfolio each pay a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

<b>Average Daily Net Assets of the Portfolio</b>	<b>Annual Management Fee Rate</b>
\$0-\$250 million	0.950%
next \$250 million	0.925%
next \$500 million	0.900%
next \$1.5 billion	0.875%
Over \$2.5 billion	0.850%

Accordingly, for the year ended December 31, 2002, the fees pursuant to the Management Agreement were equivalent to the annual effective rates shown below of the portfolios' average daily net assets:

<b>Portfolio</b>	<b>Effective Rate</b>
SVS Davis Venture Value Portfolio	0.95%
SVS Eagle Focused Large Cap Growth Portfolio	0.95%
SVS Janus Growth and Income Portfolio	0.95%
SVS Janus Growth Opportunities Portfolio	0.94%
SVS Oak Strategic Equity Portfolio	0.95%



The SVS Index 500 Portfolio pays a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

<b>Average Daily Net Assets of the Portfolio</b>	<b>Annual Management Fee Rate</b>
\$0–\$200 million	0.440%
\$200 million–\$750 million	0.400%
\$750 million–\$2 billion	0.380%
\$2 billion–\$5 billion	0.365%
Over \$5 billion	0.335%

Effective April 5, 2002, the sub-advisor agreement between the SVS Index 500 Portfolio and Deutsche Asset Management, Inc. was terminated and the investment management fee was lowered. The portfolio pays a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

<b>Average Daily Net Assets of the Portfolio</b>	<b>Annual Management Fee Rate</b>
\$0–\$250 million	0.370%
next \$250 million	0.330%
next \$500 million	0.310%
next \$1.5 billion	0.295%
Over \$2.5 billion	0.270%

Accordingly, for the year ended December 31, 2002, the fee pursuant to the Management Agreement was equivalent to an annual effective rate of 0.39% of SVS Index 500 Portfolio's average daily net assets.

The Scudder Global Blue Chip Portfolio pays a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

<b>Average Daily Net Assets of the Portfolio</b>	<b>Annual Management Fee Rate</b>
\$0–\$250 million	1.00%
next \$500 million	0.95%
next \$750 million	0.90%
next \$1.5 billion	0.85%
Over \$3 billion	0.80%

Accordingly, for the year ended December 31, 2002, the fees pursuant to the Management Agreement were equivalent to the annual effective rates shown below of the portfolio's average daily net assets:

<b>Portfolio</b>	<b>Effective Rate</b>
Scudder Global Blue Chip Portfolio	1.00%

Effective September 30, 2002 and September 2, 2002, respectively, Deutsche Asset Management Investment Services Limited ("DeAMIS") serves as sub-advisor to the Scudder International Select Equity and Scudder Strategic Income Portfolios and is paid by the Advisor for its services.

Dreman Value Management, L.L.C. serves as sub-advisor to the SVS Dreman Financial Services, SVS Dreman High Return Equity and SVS Dreman Small Cap Value Portfolios and is paid by the Advisor for its services.

INVESCO serves as sub-advisor to the SVS INVESCO Dynamic Growth Portfolio and is paid by the Advisor for its services.

Eagle Asset Management, Inc. serves as sub-advisor to the SVS Eagle Focused Large Cap Growth Portfolio and is paid by the Advisor for its services.

Janus Capital Management, L.L.C., formerly Janus Capital Corporation, serves as sub-advisor to the SVS Janus Growth and Income and SVS Janus Growth Opportunities Portfolios and is paid by the Advisor for its services.

Turner Investment Partners, Inc. serves as sub-advisor to the SVS Turner Mid Cap Growth Portfolio and is paid by the Advisor for its services.

Oak Associates, Ltd. serves as sub-advisor to the SVS Oak Strategic Equity Portfolio and is paid by the Advisor for its services.

Davis Selected Advisors, L.P., serves as sub-advisor to the SVS Davis Venture Value Portfolio and is paid by the Advisor for its services.

Jennison Associates, L.L.C. serves as sub-advisor to the “growth” portion and, effective April 5, 2002, Dreman Value Management, L.L.C. serves as sub-advisor to the “value” portion of the of the SVS Focus Value+Growth Portfolio and are paid by the Advisor for their services.

**Service Provider Fees.** Scudder Fund Accounting Corporation (“SFAC”), a subsidiary of the Advisor, is responsible for determining the daily net asset value per share and maintaining the portfolio and general accounting records of each portfolio. For the year ended December 31, 2002, SFAC received the following fee for its services for the following portfolios:

Portfolio	Total Aggregated (\$)	Fees Waived by Advisor (\$)	Unpaid at December 31, 2002 (\$)
Scudder Aggressive Growth Portfolio	6,114	—	731
Scudder Global Blue Chip Portfolio	52,678	—	4,903
Scudder Technology Growth Portfolio	46,465	—	5,185
SVS Davis Venture Value Portfolio	46,548	—	4,249
SVS Dreman Financial Services Portfolio	42,577	—	3,457
SVS Dreman High Return Equity Portfolio	95,203	—	11,346
SVS Eagle Focused Large Cap Growth Portfolio	21,745	—	7,269
SVS Index 500 Portfolio	96,904	—	15,516
SVS INVESCO Dynamic Growth Portfolio	18,190	—	3,224
SVS Janus Growth and Income Portfolio	76,303	—	5,744
SVS Janus Growth Opportunities Portfolio	39,556	—	3,599
SVS Oak Strategic Equity Portfolio	6,453	—	1,097
SVS Turner Mid Cap Growth Portfolio	48,267	—	7,816

**Distribution Service Agreement.** Under the Distribution Service Agreement, in accordance with Rule 12b-1 under the 1940 Act, Scudder Distributors, Inc. (“SDI”), a subsidiary of the Advisor, receives a fee (“Distribution Fee”) of 0.25% of average daily net assets of Class B shares. Pursuant to the agreement, SDI enters into related selling group agreements with various firms at various rates for sales of Class B shares. For the period July 1, 2002 (commencement of sales) through December 31, 2002, the Distribution Fee was as follows:

Portfolio	Total Aggregated (\$)	Fees Waived by Advisor (\$)	Unpaid at December 31, 2002 (\$)
Scudder Aggressive Growth Portfolio	18	—	13
Scudder Blue Chip Portfolio	65	—	50
Scudder Contrarian Value Portfolio	100	—	75
Scudder Global Blue Chip Portfolio	47	—	31
Scudder Government Securities Portfolio	618	—	419
Scudder Growth Portfolio	28	—	20
Scudder High Income Portfolio	205	—	159
Scudder International Select Equity Portfolio	90	—	64
Scudder Investment Grade Bond Portfolio	369	—	263
Scudder Money Market	729	438	172
Scudder Small Cap Growth Portfolio	96	—	71
Scudder Technology Growth Portfolio	80	—	43
Scudder Total Return Portfolio	227	—	127
SVS Davis Venture Value Portfolio	190	—	123
SVS Dreman Financial Services Portfolio	95	—	62
SVS Dreman High Return Equity Portfolio	426	—	316
SVS Dreman Small Cap Value Portfolio	243	—	170

Portfolio	Total Aggregated (\$)	Fees Waived by Advisor (\$)	Unpaid at December 31, 2002 (\$)
SVS Eagle Focused Large Cap Growth Portfolio	119	—	80
SVS Focus Value+Growth Portfolio	95	—	67
SVS Index 500 Portfolio	304	—	183
SVS INVESCO Dynamic Growth Portfolio	25	—	17
SVS Janus Growth and Income Portfolio	73	—	53
SVS Janus Growth Opportunities Portfolio	33	—	25
SVS Oak Strategic Equity Portfolio	81	—	56
SVS Turner Mid Cap Growth Portfolio	107	—	79

For Scudder Money Market Portfolio, the Advisor has agreed to waive 0.15% of the 12b-1 fee until April 30, 2003.

**Trustees' Fees and Expenses.** The portfolios pay each Trustee not affiliated with the Advisor retainer fees plus specified amounts for attended board and committee meetings.

**Scudder Cash Management QP Trust.** Pursuant to an Exemptive Order issued by the SEC, the portfolios may invest in the Scudder Cash Management QP Trust (the "QP Trust") and other affiliated funds managed by the Advisor. The QP Trust seeks to provide as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. The QP Trust does not pay the Advisor a management fee for the affiliated funds' investments in the QP Trust. Distributions from the QP Trust to the portfolios for the year ended December 31, 2002 are reflected as interest income on the Statement of Operations as follows:

Portfolio	Amount (\$)
Scudder Aggressive Growth Portfolio	128,677
Scudder Blue Chip Portfolio	105,485
Scudder Contrarian Value Portfolio	410,619
Scudder Global Blue Chip Portfolio	20,273
Scudder Government Securities Portfolio	1,822,228
Scudder Growth Portfolio	95,580
Scudder High Income Portfolio	235,486
Scudder International Select Equity Portfolio	19,810
Scudder Investment Grade Bond Portfolio	300,894
Scudder Small Cap Growth Portfolio	360,907
Scudder Strategic Income Portfolio	64,272
Scudder Technology Growth Portfolio	656,174
Scudder Total Return Portfolio	597,823
SVS Davis Venture Value Portfolio	297,693
SVS Dreman Financial Services Portfolio	64,148
SVS Dreman High Return Equity Portfolio	621,919
SVS Dreman Small Cap Value Portfolio	183,970
SVS Eagle Focused Large Cap Growth Portfolio	55,043
SVS Focus Value+Growth Portfolio	70,471
SVS Index 500 Portfolio	116,708
SVS INVESCO Dynamic Growth Portfolio	38,677
SVS Janus Growth and Income Portfolio	442,027
SVS Janus Growth Opportunities Portfolio	123,140
SVS Oak Strategic Equity Portfolio	29,002
SVS Turner Mid Cap Growth Portfolio	51,211

#### D. Investing in High Yield Securities

The Scudder High Income Portfolio invests a substantial portion of its assets in high yield bonds. These bonds ordinarily are in the lower rating categories of recognized rating agencies or are non-rated, and thus involve more risk than higher rated bonds.

## E. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in the United States of America. These risks include revaluation of currencies, high rates of inflation, repatriation restrictions on income and capital, and future adverse political and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls, delayed settlements and their prices more volatile than those of comparable securities in the United States of America.

## F. Expense Off-Set Arrangements

The portfolios have entered into arrangements with their custodian whereby credits realized as a result of uninvested cash balances were used to reduce a portion of the portfolio's expenses. During the year ended December 31, 2002, the portfolios' custodian fees were reduced under these arrangements as follows:

Portfolio	Amount (\$)
Scudder Aggressive Growth Portfolio	460
Scudder Blue Chip Portfolio	38
Scudder Contrarian Value Portfolio	69
Scudder Growth Portfolio	24
Scudder High Income Portfolio	1,411
Scudder Investment Grade Bond Portfolio	451
Scudder Money Market Portfolio	265
Scudder Small Cap Growth Portfolio	733
Scudder Strategic Income Portfolio	767
Scudder Technology Growth Portfolio	50
Scudder Total Return Portfolio	401
SVS Davis Venture Value Portfolio	465
SVS Dreman Financial Services Portfolio	145
SVS Dreman High Return Equity Portfolio	465
SVS Dreman Small Cap Value Portfolio	1,528
SVS Eagle Focused Large Cap Growth Portfolio	145
SVS Focus Value+Growth Portfolio	41
SVS Index 500 Portfolio	76
SVS INVESCO Dynamic Growth	49
SVS Janus Growth and Income Portfolio	175
SVS Janus Growth Opportunities Portfolio	37
SVS Oak Strategic Equity Portfolio	82
SVS Turner Mid Cap Growth Portfolio	165

## G. Commitments

As of December 31, 2002, the following portfolios had entered into the following forward foreign currency exchange contracts resulting in the following:

### Scudder Global Blue Chip Portfolio

Contracts to Deliver	In Exchange For	Settlement Date	Net Unrealized Appreciation (Depreciation) (US\$)
JPY 171,094,000	USD 1,400,000	1/24/03	(42,097)

### Scudder High Income Portfolio

Contracts to Deliver	In Exchange For	Settlement Date	Net Unrealized Appreciation (Depreciation) (US\$)
EUR 1,725,490	USD 1,695,580	1/22/03	(114,490)
EUR 91,770	USD 93,928	3/19/03	(2,122)
			(116,612)

## Scudder Strategic Income Portfolio

Contracts to Deliver		In Exchange For		Settlement Date	Net Unrealized Appreciation (Depreciation) (US\$)
CAD	941,514	USD	604,356	1/31/03	6,636
USD	139,930	EUR	140,000	2/28/03	6,715
					<b>13,351</b>

Contracts to Deliver		In Exchange For		Settlement Date	Net Unrealized Appreciation (Depreciation) (US\$)
EUR	5,776,144	USD	5,789,209	1/31/03	(257,170)
GBP	1,073,683	USD	1,664,209	1/31/03	(62,147)
EUR	825,000	USD	824,010	2/28/03	(40,145)
JPY	522,748,148	USD	4,305,998	1/31/03	(101,287)
					<b>(460,749)</b>

## SVS Janus Growth and Income Portfolio

Contracts to Deliver		In Exchange For		Settlement Date	Net Unrealized Appreciation (Depreciation) (US\$)
USD	2,008,200	EUR	2,000,000	2/21/03	87,286

Contracts to Deliver		In Exchange For		Settlement Date	Net Unrealized Appreciation (Depreciation) (US\$)
EUR	150,000	USD	153,085	2/21/03	(4,076)

### Abbreviations:

USD	United States Dollar	GBP	British Pound
CAD	Canadian Dollar	JPY	Japanese Yen
EUR	Euro		

## H. Ownership of the Portfolios

At the end of the period, the beneficial ownership in the portfolios was as follows:

**Scudder Aggressive Growth Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 63% and 37%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**Scudder Blue Chip Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 53% and 42%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**Scudder Contrarian Value Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 46%, 34% and 20%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**Scudder Global Blue Chip Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 53% and 44%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**Scudder Government Securities Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 48%, 29% and 15%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**Scudder Growth Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 60%, 25% and 15%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**Scudder High Income Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 43%, 33% and 22%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**Scudder International Select Equity Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 36%, 36% and 28%, respectively. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 85% and 15%, respectively.

**Scudder Investment Grade Bond Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 51% and 39%, respectively. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 90% and 10%, respectively.

**Scudder Money Market Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 41%, 41% and 15%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**Scudder Small Cap Growth Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 34%, 32% and 31%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**Scudder Strategic Income Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding shares of the Portfolio, each owning 52% and 41%, respectively.

**Scudder Technology Growth Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 66% and 32%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**Scudder Total Return Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 50%, 34% and 16%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**SVS Davis Venture Value Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 71% and 29%, respectively. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 88% and 12%, respectively.

**SVS Dreman Financial Services Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 49% and 47%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**SVS Dreman High Return Equity Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 62% and 34%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**SVS Dreman Small Cap Value Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 46%, 37% and 14%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**SVS Eagle Focused Large Cap Growth Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 65% and 32%, respectively. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 88% and 12%, respectively.

**SVS Focus Value+Growth Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 58%, 25% and 15%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**SVS Index 500 Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 63% and 34%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**SVS INVESCO Dynamic Growth Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 72% and 25%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**SVS Janus Growth and Income Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 63% and 35%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**SVS Janus Growth Opportunities Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 64% and 33%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**SVS Oak Strategic Equity Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 77% and 21%, respectively. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

**SVS Turner Mid Cap Growth Portfolio:** One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class A shares of the Portfolio, owning 23%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

## I. Line of Credit

The Trust and several other affiliated funds (the “Participants”) share in a \$1.3 billion revolving credit facility administered by J.P. Morgan Chase Bank 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, pro rata based upon net assets, among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.5 percent. The facility borrowing limit for each portfolio is as follows:

Portfolio	Facility Borrowing Limit
Scudder Aggressive Growth Portfolio	33%
Scudder Blue Chip Portfolio	33%
Scudder Contrarian Value Portfolio	33%
Scudder Global Blue Chip Portfolio	33%
Scudder Government Securities Portfolio	33%
Scudder Growth Portfolio	33%
Scudder High Income Portfolio	33%
Scudder International Select Equity Portfolio	33%
Scudder Investment Grade Bond Portfolio	33%
Scudder Money Market Portfolio	33%
Scudder Small Cap Growth Portfolio	33%
Scudder Strategic Income Portfolio	33%
Scudder Technology Growth Portfolio	5%
Scudder Total Return Portfolio	33%
SVS Davis Venture Value Portfolio	33%
SVS Dreman Financial Services Portfolio	33%
SVS Dreman High Return Equity Portfolio	33%
SVS Dreman Small Cap Value Portfolio	33%
SVS Eagle Focused Large Cap Growth Portfolio	33%
SVS Focus Value+Growth Portfolio	33%
SVS Index 500 Portfolio	33%
SVS INVESCO Dynamic Growth Portfolio	33%
SVS Janus Growth and Income Portfolio	33%
SVS Janus Growth Opportunities Portfolio	33%
SVS Oak Strategic Equity Portfolio	33%
SVS Turner Mid Cap Growth Portfolio	33%

At the end of the period, Scudder Global Blue Chip Portfolio had \$150,000 as outstanding. Interest expense incurred on the borrowings amounted to \$144 for the year ended December 31, 2002. The average dollar amount of the borrowings was \$240,909 and the weighted average interest rate on these borrowings was 1.909%.

## **J. Acquisition of Assets**

On November 3, 2002, the Scudder International Select Equity Portfolio (“Acquiring Portfolio”) acquired all the net assets of the Scudder New Europe Portfolio (“Acquired Portfolio”) pursuant to a plan of reorganization approved by the shareholders. The acquisition was accomplished by a tax-free exchange of 5,317,510 shares of the Acquiring Portfolio for 3,442,318 shares of the Acquired Portfolio outstanding on November 3, 2002. The Acquired Portfolio’s net assets at that date (\$27,341,143), including 1,093,847 of net unrealized depreciation, were combined with those of Scudder International Select Equity Portfolio. The aggregate net assets of Scudder International Select Equity Portfolio immediately before the acquisition were \$93,636,672. The combined net assets of the Scudder International Select Equity Portfolio immediately following the acquisition were \$120,977,815.

On April 27, 2001, the Scudder Total Return Portfolio (“Acquiring Portfolio”) acquired all the net assets of the Kemper Horizon 20+ Portfolio, Kemper Horizon 10+ Portfolio and the Kemper Horizon 5 Portfolio (“Acquired Portfolios”) pursuant to a plan of reorganization approved by the shareholders. The acquisition was accomplished by a tax-free exchange of 46,931,368 shares of the Acquiring Portfolio for the 21,787,601, 43,847,344 and 29,839,378 shares, respectively of the Kemper Horizon 20+ Portfolio, Kemper Horizon 10+ Portfolio and the Kemper Horizon 5 Portfolio (unadjusted for June 18, 2001 stock split) outstanding on April 27, 2001. Kemper Horizon 20+ Portfolio, Kemper Horizon 10+ Portfolio and the Kemper Horizon 5 Portfolio’s net assets at that date (\$25,401,631, \$50,410,127 and \$34,187,073, respectively), including \$1,957,048, \$2,205,572 and \$934,365, respectively, of net unrealized appreciation, were combined with those of Scudder Total Return Portfolio. The aggregate net assets of Scudder Total Return Portfolio immediately before the acquisition were \$803,790,624. The combined net assets of the Scudder Total Return Portfolio immediately following the acquisition were \$913,789,455.

Additionally, on April 30, 2001, the Scudder Growth Portfolio (“Acquiring Portfolio”) acquired all the net assets of the Scudder Variable Life Large Company Growth Portfolio (“Acquired Portfolio”) pursuant to a plan of reorganization approved by the shareholders. The acquisition was accomplished by a tax-free exchange of 3,180,533 shares of the Acquiring Portfolio (unadjusted for June 18, 2001 stock split) for the 1,317,680 shares of the Acquired Portfolio outstanding on April 30, 2001. The Acquired Portfolio’s net assets at that date (\$7,576,034), including \$1,226,003 of net unrealized depreciation, were combined with those of Scudder Growth Portfolio. The aggregate net assets of Scudder Growth Portfolio immediately before the acquisition were \$491,110,861. The combined net assets of the Scudder Growth Portfolio immediately following the acquisition were \$498,686,895.

## **K. Subsequent Event**

On September 27, 2002, Deutsche Bank AG agreed to the sale of its global passive equity, enhanced equity and passive fixed income businesses to Northern Trust Investments, Inc. (“NTI”), a subsidiary of Northern Trust Company. Under this agreement, it is proposed that Deutsche Investment Management Americas Inc. would remain as investment advisor to the SVS Index 500 Portfolio and that NTI would become a sub-advisor to the portfolio, subject to shareholder approval and satisfaction of certain other conditions, within three to six months from the date of the closing of the transaction. From the date of the closing of the transaction (January 31, 2003) until shareholders of the portfolio approve the sub-advisory agreement with NTI, the investment advisory personnel who provide services to the portfolio will be employees of NTI but will be seconded (leased) from NTI to Deutsche Investment Management Americas Inc. and continue to manage the portfolio pursuant to the current advisory agreement. After the shareholders approve the new sub-advisory agreement, the employees will no longer be leased to Deutsche Investment Management Americas Inc. but are expected to continue to provide services to the portfolio under the sub-advisory agreement as employees of NTI.



# Report of Ernst & Young LLP, Independent Auditors

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## **The Trustees and the Shareholders of Scudder Variable Series II:**

We have audited the accompanying statements of assets and liabilities, including the portfolios of investments, of the Scudder Aggressive Growth, Scudder Blue Chip, Scudder Contrarian Value, Scudder Global Blue Chip, Scudder Government Securities, Scudder Growth, Scudder High Income (formerly Scudder High Yield), Scudder International Select Equity (formerly Scudder International Research), Scudder Investment Grade Bond, Scudder Money Market, Scudder Small Cap Growth, Scudder Strategic Income, Scudder Technology Growth, Scudder Total Return, SVS Davis Venture Value (formerly SVS Venture Value), SVS Dreman Financial Services, SVS Dreman High Return Equity, SVS Dreman Small Cap Value (formerly Scudder Small Cap Value), SVS Eagle Focused Large Cap Growth (formerly SVS Focused Large Cap Growth), SVS Focus Value+Growth, SVS Index 500, SVS INVESCO Dynamic Growth (formerly SVS Dynamic Growth), SVS Janus Growth and Income (formerly SVS Growth and Income), SVS Janus Growth Opportunities (formerly SVS Growth Opportunities), SVS Oak Strategic Equity (formerly SVS Strategic Equity), and SVS Turner Mid Cap Growth (formerly SVS Mid Cap Growth) Portfolios (twenty six of the portfolios constituting the Scudder Variable Series II [the "Trust"]) (collectively, the "portfolios") as of December 31, 2002, the related statements of operations for the year then ended, and the statements of changes in net assets and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2002, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of each of the aforementioned portfolios of the Scudder Variable Series II at December 31, 2002, the results of their operations for the year then ended, and the changes in their net assets and their financial highlights for each of the periods indicated therein, in conformity with accounting principles generally accepted in the United States.

Boston, Massachusetts  
February 13, 2003

*Ernst + Young LLP*

The following portfolio paid distributions from net long-term capital gains during the year ended December 31, 2002 as follows:

Portfolio	Distribution Per Share (\$)	% Representing 20% Rate Gains
SVS Dreman High Return Equity Portfolio	.035	100

The following portfolio designated as capital gain dividends for its year ended December 31, 2002:

Portfolio	Capital Gain (\$)	% Representing 20% Rate Gains
Scudder Government Securities Portfolio	714,000	100
Scudder Strategic Income Portfolio	19,000	100
SVS Dreman Small Cap Value Portfolio	4,227,000	100

For corporate shareholders, the following percentage of income dividends paid during the following portfolios' fiscal year ended December 31, 2002 qualified for the dividends received deduction:

Portfolio	%
Scudder Aggressive Growth Portfolio	54
Scudder Blue Chip Portfolio	100
Scudder Contrarian Value Portfolio	91
Scudder Global Blue Chip Portfolio	75
Scudder Total Return Portfolio	19
SVS Davis Venture Value Portfolio	100
SVS Dreman Financial Services Portfolio	100
SVS Dreman High Return Equity Portfolio	100
SVS Dreman Small Cap Value Portfolio	100
SVS Focus Value+Growth Portfolio	100
SVS Janus Growth and Income Portfolio	100
SVS Index 500 Portfolio	100

Scudder International Select Equity Portfolio paid foreign taxes of \$267,043 and earned \$1,820,760 of foreign source income during the year ended December 31, 2002. Pursuant to Section 853 of the Internal Revenue Code, Scudder International Select Equity Portfolio designates \$0.02 per share as foreign taxes paid and \$0.12 per share as income earned from foreign sources for the year ended December 31, 2002.

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please call 1-800-621-1048.

# Trustees and Officers

The following table presents certain information regarding the Trustees and Officers of the fund as of December 31, 2002. Each individual's age is set forth in parentheses after his or her name. Unless otherwise noted, (i) each individual has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity, and (ii) the address of each individual is c/o Deutsche Asset Management, 222 South Riverside Plaza, Chicago, Illinois, 60606. Each Trustee's term of office extends until the next shareholder's meeting called for the purpose of electing Trustees and until the election and qualification of a successor, or until such Trustee sooner dies, resigns or is removed as provided in the governing documents of the fund.

## Non-Interested Trustees

Name, Age, Position(s) Held with the Fund and Length of Time Served <sup>1</sup>	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Funds in Fund Complex Overseen
John W. Ballantine (56) Trustee, 1999–present	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996). Directorships: Enron Corporation (energy trading firm) (effective May 30, 2002); First Oak Brook Bancshares, Inc.; Oak Brook Bank; Tokheim Corporation (designer, manufacturer and servicer of electronic and mechanical petroleum marketing systems)	81
Lewis A. Burnham (69) Trustee, 1977–present	Retired; formerly, Director of Management Consulting, McNulty & Company (1990–1998); prior thereto, Executive Vice President, Anchor Glass Container Corporation	81
Donald L. Dunaway (65) Trustee, 1980–present	Retired; formerly, Executive Vice President, A. O. Smith Corporation (diversified manufacturer) (1963–1994)	81
James R. Edgar (56) Trustee, 1999–present	Distinguished Fellow, University of Illinois, Institute of Government and Public Affairs (1999–present); formerly, Governor, State of Illinois (1991–1999). Directorships: Kemper Insurance Companies; John B. Sanfilippo & Son, Inc. (processor/packager/marketer of nuts, snacks and candy products); Horizon Group Properties, Inc.; Youbet.com (online wagering platform); Alberto-Culver Company (manufactures, distributes and markets health and beauty-care products)	81
Paul K. Freeman (52) Trustee, 2002–present	President, Cook Street Holdings (consulting); Adjunct Professor, University of Denver; Consultant, World Bank/Inter-American Development Bank; formerly, Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	81
Robert B. Hoffman (66) Trustee, 1981–present	Retired; formerly, Chairman, Harnischfeger Industries, Inc. (machinery for the mining and paper industries) (1999–2000); prior thereto, Vice Chairman and Chief Financial Officer, Monsanto Company (agricultural, pharmaceutical and nutritional/food products) (1994–1999); Vice President and Head of International Operations, FMC Corporation (manufacturer of machinery and chemicals) (1990–1994)	81
Shirley D. Peterson (61) Trustee, 1995–present	Retired; formerly, President, Hood College (1995–2000); prior thereto, Partner, Steptoe & Johnson (law firm); Commissioner, Internal Revenue Service; Assistant Attorney General (Tax), U.S. Department of Justice. Directorships: Bethlehem Steel Corp.; Federal Mogul Corp.; Trustee, Bryn Mawr College	81
Fred B. Renwick (72) Trustee, 1988–present	Retired; Professor Emeritus of Finance, New York University, Stern School of Business (2001–present); formerly, Professor, New York University Stern School of Business (1965–2001). Directorships: The Wartburg Foundation; The Investment Fund for Foundations; Chairman, Finance Committee of Morehouse College Board of Trustees; American Bible Society Investment Committee; formerly, Director of Board of Pensions, Evangelical Lutheran Church in America; member of the Investment Committee of Atlanta University Board of Trustees	81
William P. Sommers (69) Trustee, 1979–present	Retired; formerly, President and Chief Executive Officer, SRI International (research and development) (1994–1998); prior thereto, Executive Vice President, Iameter (medical information and educational service provider); Senior Vice President and Director, Booz, Allen & Hamilton Inc. (management consulting firm). Directorships: PSI Inc. (engineering and testing firm); Evergreen Solar, Inc. (develop/manufacture solar electric system engines); H <sub>2</sub> Gen (manufacture hydrogen generators); Zassi Medical Evolutions, Inc. (specialists in intellectual property opportunities in medical device arena)	81
John G. Weithers (69) Trustee, 1993–present	Retired; formerly, Chairman of the Board and Chief Executive Officer, Chicago Stock Exchange (until 1992). Directorships: Federal Life Insurance Company; Chairman of the Members of the Corporation and Trustee, DePaul University; formerly, International Federation of Stock Exchanges; Records Management Systems	81

## Interested Trustees and Officers

Name, Age, Position(s) Held with the Fund and Length of Time Served <sup>1</sup>	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Funds in Fund Complex Overseen
Richard T. Hale <sup>2,3</sup> (57) Chairman, Trustee and Vice President, 2002–present	Managing Director of Deutsche Bank Securities Inc. (formerly Deutsche Banc Alex. Brown Inc.) and Deutsche Asset Management (1999 to present); Director and President, Investment Company Capital Corp. (registered investment advisor) (1996 to present); Director, Deutsche Global Funds, Ltd. (2000 to present), CABEL Fund (2000 to present), North American Income Fund (2000 to present) (registered investment companies); President, DB Hedge Strategies Fund LLC (June 2002 to present), Montgomery Street Securities, Inc. (2002 to present) (registered investment companies); Vice President, Deutsche Asset Management, Inc. (2000 to present); formerly, Director, ISI Family of Funds (registered investment company; 4 funds overseen) (1992–1999)	198
William F. Glavin, Jr. <sup>2</sup> (44) Trustee and President, 2001–present	Managing Director of Deutsche Asset Management; President of Scudder Investor Services Corp. (1999–present); President of Scudder Service Corp. (2000–present); President of Scudder Financial Services, Inc. (1999–present); Vice President of Scudder Distributors, Inc. (2000–present); formerly, Executive Vice President of Dreyfus Service Corp. (1995–1997); Senior Vice President of The Boston Company Advisors (1991–1995). Directorships: Trustee, Crossroads for Kids (serves at-risk children)	81
Alexander Black <sup>4</sup> (39) Vice President, 2002–present	Managing Director of Deutsche Asset Management	n/a
Janet C. Campagna <sup>5</sup> (45) Vice President, 2002–present	Managing Director of Deutsche Asset Management (1999 to present); prior thereto, investment strategist and manager of Asset Allocation Strategies Group at Barclays Global Investors; global asset allocation research director, First Quadrant Corp.	n/a
Philip J. Collora (57) Vice President and Assistant Secretary, 1986–present	Director of Deutsche Asset Management	n/a
Andrew P. Cestone <sup>8</sup> (32) Vice President, 2002–present	Managing Director of Deutsche Asset Management (1998 to present); prior thereto, investment analyst, Phoenix Investment Partners; credit officer in asset-based lending group, Fleet Bank	n/a
John E. Dugenske <sup>6</sup> (36) Vice President, 2002–present	Managing Director of Deutsche Asset Management (1998 to present); prior thereto, investment officer and portfolio manager, NISA Investment Advisors	n/a
Jan C. Faller <sup>6</sup> (36) Vice President, 2000–present	Managing Director of Deutsche Asset Management (1999–present); prior thereto, investment manager, PanAgora Asset Management, and banking officer, Wainwright Bank & Trust Co.	n/a
Joshua Feuerman <sup>5</sup> (37) Vice President, 2002–present	Managing Director of Deutsche Asset Management (1999 to present); prior thereto, head of international strategies, State Street Global Advisors	n/a
Daniel O. Hirsch <sup>3</sup> (48) Vice President and Assistant Secretary, 2002–present	Managing Director of Deutsche Asset Management (2002–present) and Director, Deutsche Global Funds Ltd. (2002–present); formerly, Director, Deutsche Asset Management (1999–2002); Principal, BT Alex. Brown Incorporated (now Deutsche Bank Securities Inc.) (1998–1999); Assistant General Counsel, United States Securities and Exchange Commission (1993–1998)	n/a
William E. Holzer <sup>5</sup> (53) Vice President, 2002–present	Managing Director of Deutsche Asset Management	n/a
Audrey M. T. Jones <sup>5</sup> (57) Vice President, 2003–present	Managing Director of Deutsche Asset Management	n/a
Kenneth Murphy <sup>9</sup> (39) Vice President, 2002–present	Vice President of Deutsche Asset Management (2001–present); formerly, Director, John Hancock Signature Services (1992–2001); Senior Manager, Prudential Mutual Fund Services (1987–1992)	n/a
Darlene M. Rasel (51) Vice President, 2002–present	Managing Director of Deutsche Asset Management	n/a
Thomas F. Sassi <sup>5</sup> (60) Vice President, 1998–present	Managing Director of Deutsche Asset Management	n/a
Blair Treisman <sup>5</sup> (35) Vice President, 2002–present	Director of Deutsche Asset Management (1999–present); prior thereto, business services analyst, Salomon Smith Barney, senior research analyst and hedge fund manager, Midtown Research Group, and senior analyst, Putnam Investments	n/a
Timothy C. Vile <sup>8</sup> (41) Vice President, 2002–present	Managing Director of Deutsche Asset Management	n/a
Charles A. Rizzo <sup>9</sup> (45) Treasurer, 2002–present	Director of Deutsche Asset Management (April 2000 to present); formerly, Vice President and Department Head, BT Alex. Brown Incorporated (now Deutsche Bank Securities Inc.) (1998–1999); Senior Manager, Coopers & Lybrand L.L.P. (now PricewaterhouseCoopers LLP) (1993–1998)	n/a

Name, Age, Position(s) Held with the Fund and Length of Time Served <sup>1</sup>	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Funds in Fund Complex Overseen
Brenda Lyons <sup>9</sup> (40) Assistant Treasurer, 1998–present	Managing Director of Deutsche Asset Management	n/a
John Millette <sup>9</sup> (40) Secretary, 2001–present	Vice President of Deutsche Asset Management	n/a
Caroline Pearson <sup>9</sup> (40) Assistant Secretary, 1998–present	Managing Director of Deutsche Asset Management	n/a

<sup>1</sup> Length of time served represents the date that each Trustee was first elected to the common board of trustees which oversees a number of investment companies, including the fund, managed by the Advisor. For the Officers of the fund, length of time served represents the date that each Officer was first elected to serve as an officer of any fund overseen by the aforementioned common board of trustees.

<sup>2</sup> As a result of their respective positions held with the Advisor, these individuals are considered “interested persons” of the Advisor within the meaning of the 1940 Act, as amended. Interested persons receive no compensation from the fund.

<sup>3</sup> Address: One South Street, Baltimore, Maryland

<sup>4</sup> Address: 1 Appold Street, London, England

<sup>5</sup> Address: 345 Park Avenue, New York, New York

<sup>6</sup> Address: 280 Park Avenue, New York, New York

<sup>7</sup> Address: 60 Wall Street, New York, New York

<sup>8</sup> Address: 150 S. Independence Square West, Philadelphia, Pennsylvania

<sup>9</sup> Address: Two International Place, Boston, Massachusetts

The fund’s Statement of Additional Information (“SAI”) includes additional information about the Trustees. The SAI is available, without charge, upon request. If you would like to request a copy of the SAI, you may do so by calling the following toll-free number: 1-800-621-1048.

# Shareholder Meeting Results

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A Special Meeting of Shareholders of the Scudder New Europe Portfolio of Scudder Variable Series II was held on October 29, 2002. The following matter was voted upon by the shareholders of said portfolio (the resulting votes are presented below):

1. To approve an Agreement and Plan of Reorganization as it relates to (i) the transfer of all or substantially all of the assets and all of the liabilities of the Scudder New Europe Portfolio to the Scudder International Select Equity Portfolio (the “International Portfolio”), (ii) the distribution to each shareholder of the Portfolio of Class A shares of beneficial interest of the International Portfolio in an amount equal in value to the shareholder’s shares of the Portfolio, and (iii) the termination of the Portfolio.

<b>Affirmative</b>	<b>Against</b>	<b>Abstain</b>
4,486,127	192,570	448,219

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# Notes

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# Notes

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# Notes

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## About the Fund's Advisor

Scudder Investments is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Investment Management Americas Inc., Deutsche Asset Management Inc., Deutsche Bank Securities Inc., Deutsche Asset Management Investment Services Ltd., Deutsche Bank Trust Company Americas and Scudder Trust Company.

An investment in the Money Market Portfolio is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Money Market Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Portfolio.

The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time, based on market and other conditions and should not be construed as a recommendation.

Scudder Distributors, Inc.  
222 South Riverside Plaza  
Chicago, IL 60606  
1-800-778-1482

**SCUDDER**  
INVESTMENTS

A Member of

Deutsche Asset Management



This information must be preceded or accompanied by a current prospectus.

Portfolio changes should not be considered recommendations for action by individual investors.

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# Janus Aspen Series

Janus Aspen Growth Portfolio



# Janus Aspen Growth Portfolio

Blaine Rollins, portfolio manager

Janus Aspen Growth Portfolio declined 26.51% for its Institutional Shares and 26.72% for its Service Shares for the 12 months ended December 31, 2002, underperforming the 22.09% loss of its benchmark, the Standard & Poor's 500® Index.<sup>(1)</sup> This performance earned the Portfolio's Institutional Shares a top-quartile ranking for the one-year period ended December 31, 2002, placing it 30th out of 135 variable annuity large-cap growth funds tracked by Lipper, a Reuters Company and leading mutual fund rating company.<sup>(2)</sup>



Uncertainty surrounding lingering terrorist threats and, later, a potential war with Iraq overshadowed the economy and stock market for much of the year. Ongoing corporate scandals added to Wall Street's

woes and undermined the confidence of investors and consumers alike. Meanwhile, despite interest rates at 41-year lows, companies maintained a conservative spending mindset and households scaled back their purchases, leading to sluggish economic growth and some high-profile corporate earnings disappointments. As the period ended, all three major stock benchmarks had suffered their third straight year of declines.

Clearly, few investors found success during 2002. Still, I am not pleased with our absolute performance. Among our leading disappointments was hospital operator Tenet Healthcare. The company is currently subject to numerous investigations into its operations and billing procedures, especially in association with Medicare patients. Although an internal investigation led to the departure of two key members of the management team, we felt uncomfortable with the situation and liquidated the position.

Industrial conglomerate Tyco International also worked against us. Misdeeds by former executives and significant debt issues undercut the stock earlier in the year, but a new team has assumed management of the company, which we believe still possesses some healthy attributes. In addition to controlling extremely strong franchises in the home security, healthcare supply and fire protection businesses, Tyco spun off its CIT Group financial arm to raise cash and allay concerns about its ability to pay down debt. As long as the company's valuation is attractive, we will continue to be interested in Tyco's turnaround story.

Elsewhere, the ongoing slowdown in corporate spending hurt semiconductor manufacturers Maxim Integrated Products and Linear Technology. With a focus on diverse end markets ranging from home appliances to laptop computers, however, Maxim and Linear are not subject to the overcapacity concerns facing chipmakers supplying the personal computer market. Instead, both companies are developing products that further integrate advanced electronics into everyday life. The way we see it, Maxim and Linear are better positioned for a recovery than their PC-dependent peers.

Leaders on the upside included Lockheed Martin. The defense contractor first caught our attention when current CEO Bob Stevens was leading the company's battle for survival. Since then,

Lockheed has improved operations across all of its business segments and currently wins more than half of its government bids. Furthermore, with specialties in military aircraft and intelligence gathering, Lockheed, in our view, is in a prime position to gain from the nation's ongoing war and defense efforts.

Also providing a lift was Sealed Air, the maker of bubble wrap and other packaging materials. Having merged with the Cryovac division of W.R. Grace in 1999, Sealed Air inherited a tangled mess of asbestos-related liabilities when Grace declared bankruptcy in 2000. Although Sealed Air was never directly responsible for the asbestos, it recently negotiated an agreement with the victims, turning an uncertain situation into a measurable risk. Meanwhile, the company remains a top supplier of packing materials and its Cryovac division produces the leading plastic packaging for the food industry.

A newer holding and winner during the period was Apollo Group, the operator of advanced degree programs targeting working adults. As the economy cooled, the importance of higher education reemerged. Employees competing for promotions found they needed to return to class and shore up their résumés with additional schooling. Absent the high cost structure of a state or private institution, Apollo's University of Phoenix offers students a reasonably priced option while maintaining solid margins.

Looking ahead, while I believe an economic turnaround is coming, it is impossible to predict how it will play out. Due in part to the cloud of uncertainty generated by Iraq, investors seem to be in a holding pattern, waiting to see if the economy will get significantly better or take another turn for the worse. Regardless, we remain focused on finding well-managed businesses that are generating cash today. As the economy improves, we believe these are the companies that will emerge leaner, wiser and in a better competitive position.

Thank you for your continued investment in Janus Aspen Growth Portfolio.

## Portfolio Asset Mix

(% of Net Assets)	December 31, 2002	December 31, 2001
Equities	99.8%	96.6%
Foreign	8.0%	9.7%
Europe	3.5%	2.6%
Top 10 Equities	39.8%	38.8%
Number of Stocks	91	102
Cash and Cash Equivalents	0.2%	3.4%

(1) All returns include reinvested dividends and capital gains.

(2) Lipper, a Reuters Company, is a nationally recognized organization that ranks the performance of mutual funds within a universe of funds that have similar investment objectives. Rankings are historical and are based on total return with capital gains and dividends reinvested. As of December 31, 2002, Lipper ranked Janus Aspen Growth Portfolio – Institutional Shares 27th out of 64 variable annuity large-cap growth funds for the 5-year period.

Past performance does not guarantee future results.

There is no assurance that the investment process will consistently lead to successful investing.

## Average Annual Total Return

For the Periods Ended December 31, 2002

Institutional Shares (Inception Date 9/13/93)	
1 Year	(26.51)%
5 Year	(1.59)%
From Inception	6.89%

S&P 500® Index	
1 Year	(22.09)%
5 Year	(0.58)%
From Inception Date of Institutional Shares	9.17%

Service Shares (Inception Date 12/31/99)	
1 Year	(26.72)%
5 Year	(1.87)%
From Portfolio Inception	6.57%

Returns shown for Service Shares for periods prior to their inception are derived from the historical performance of Institutional Shares, adjusted to reflect the higher operating expenses of Service Shares.

Returns have sustained significant gains and losses due to market volatility in the consumer discretionary sector.

Due to market volatility, current performance may be higher or lower than the figures shown. Call 1-800-504-4440 or visit janus.com for more current performance information.

Past performance is no guarantee of future results and investment results and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Total return includes reinvestment of dividends and capital gains.

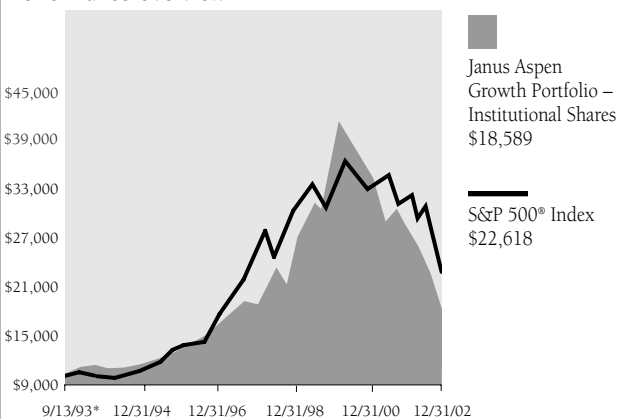
The S&P 500® is the Standard & Poor's Composite Index of 500 stocks, a widely recognized, unmanaged index of common stock prices. The Portfolio may differ significantly from the securities held in the index. The index is not available for direct investment; therefore its performance does not reflect the expenses associated with the active management of an actual portfolio.

These returns do not reflect the charges and expenses of any particular insurance product or qualified plan.

## Average Annual Total Return – for the periods ended December 31, 2002

	One Year	Five Year	Since 9/13/93*
Janus Aspen Growth Portfolio			
– Institutional Shares	(26.51)%	(1.59)%	6.89%
S&P 500® Index	(22.09)%	(0.58)%	9.17%

### Performance Overview



\*The Portfolio's inception date.

Source – Lipper, a Reuters Company 2002.

See "Explanations of Charts, Tables and Financial Statements."

## Schedule of Investments

Shares or Principal Amount	Market Value	Shares or Principal Amount	Market Value
Common Stock – 99.8%		Cable Television – 6.1%	
Advertising Sales – 0.8%		4,489,457 Comcast Corp. – Special Class A* . . . . .	\$101,416,834
374,285 Lamar Advertising Co.* . . . . .	\$12,594,690	Chemicals – Specialty – 1.6%	
Aerospace and Defense – 2.4%		144,225 Ecolab, Inc. . . . .	7,139,137
183,300 General Dynamics Corp. . . . .	14,548,521	409,850 Sigma-Aldrich Corp. . . . .	19,959,695
445,095 Lockheed Martin Corp. . . . .	25,704,236		27,098,832
	40,252,757	Commercial Banks – 0.6%	
Airlines – 1.8%		117,735 M&T Bank Corp. . . . .	9,342,272
391,335 Ryanair Holdings PLC (ADR)* . . . . .	15,324,679	Commercial Services – Finance – 1.7%	
1,078,425 Southwest Airlines Co. . . . .	14,990,107	590,910 Concord EFS, Inc.* . . . . .	9,300,923
	30,314,786	85,040 Moody's Corp. . . . .	3,511,302
Beverages – Non-Alcoholic – 0.6%		543,917 Paychex, Inc. . . . .	15,175,284
209,970 Coca-Cola Co. . . . .	9,200,885		27,987,509
Broadcast Services and Programming – 1.5%		Computer Services – 0.5%	
664,648 Clear Channel Communications, Inc.* . . . . .	24,784,724	607,055 Ceridian Corp.* . . . . .	8,753,733
Building – Mobile Home and Manufactured Housing – 0.8%		Computers – 1.0%	
714,260 Clayton Homes, Inc. . . . .	8,699,687	616,460 Dell Computer Corp.* . . . . .	16,484,140
109,595 Winnebago Industries, Inc. . . . .	4,299,412	Containers – Metal and Glass – 0.5%	
	12,999,099	156,715 Ball Corp. . . . .	8,022,241
Building – Residential and Commercial – 0.3%		Containers – Paper and Plastic – 1.5%	
17,300 NVR, Inc.* . . . . .	5,631,150	294,035 Bemis Company, Inc. . . . .	14,592,957
		295,070 Sealed Air Corp.* . . . . .	11,006,111
			25,599,068

See Notes to Schedules of Investments and Financial Statements.

# Janus Aspen Growth Portfolio

## Schedule of Investments

Shares or Principal Amount	Market Value	Shares or Principal Amount	Market Value
Cosmetics and Toiletries – 6.7%		Instruments – Scientific – 0.2%	
1,344,483 Colgate-Palmolive Co. ....	\$ 70,491,244	98,035 Dionex Corp.*,# .....	\$ 2,908,698
480,183 Procter & Gamble Co. ....	41,266,927	Insurance Brokers – 0.3%	
	111,758,171	146,945 Arthur J. Gallagher & Co. ....	4,317,244
Data Processing and Management – 1.5%		Life and Health Insurance – 2.1%	
150,970 Automatic Data Processing, Inc. ....	5,925,573	1,027,150 AFLAC, Inc. ....	30,937,758
473,545 Fiserv, Inc.* .....	16,076,853	66,885 StanCorp Financial Group, Inc. ....	3,267,332
111,630 SEI Investments Co. ....	3,034,103		34,205,090
	25,036,529	Machine Tools and Related Products – 0.4%	
Dental Supplies and Equipment – 0.1%		175,415 Kennametal, Inc. ....	6,048,309
53,785 Patterson Dental Co.* .....	2,352,556	Medical – Drugs – 0.6%	
Distribution and Wholesale – 0.4%		69,460 Forest Laboratories, Inc.* .....	6,822,361
138,545 W.W. Grainger, Inc. ....	7,141,995	89,280 Novartis A.G. (ADR)** .....	3,279,254
Diversified Operations – 4.8%			10,101,615
179,830 3M Co. ....	22,173,039	Medical – HMO – 0.8%	
336,070 ARAMARK Corp. – Class B* .....	7,897,645	157,725 UnitedHealth Group, Inc. ....	13,170,038
1,176,980 Cendant Corp.* .....	12,334,750	Medical – Wholesale Drug Distributors – 0.7%	
158,870 Illinois Tool Works, Inc. ....	10,304,308	187,870 Cardinal Health, Inc. ....	11,120,025
135,925 ITT Industries, Inc. ....	8,249,288	Medical Instruments – 1.4%	
92,000 SPX Corp.* .....	3,445,400	676,110 Apogent Technologies, Inc.* .....	14,063,088
880,590 Tyco International, Ltd. ....	15,040,477	225,370 St. Jude Medical, Inc.* .....	8,951,696
	79,444,907		23,014,784
E-Commerce/Products – 0.9%		Medical Products – 2.6%	
821,340 Amazon.com, Inc.* .....	15,515,113	389,130 Johnson & Johnson .....	20,900,172
E-Commerce/Services – 1.0%		218,295 Stryker Corp. ....	14,651,960
244,137 eBay, Inc.* .....	16,557,371	13,523 Synthes-Stratec, Inc.** .....	8,293,619
Electronic Components – Semiconductors – 1.4%			43,845,751
335,020 NVIDIA Corp.* .....	3,856,080	Metal Processors and Fabricators – 0.3%	
1,253,495 Texas Instruments, Inc. ....	18,814,960	206,160 Precision Castparts Corp. ....	4,999,380
	22,671,040	Motorcycle and Motor Scooter Manufacturing – 0.7%	
Fiduciary Banks – 4.1%		258,320 Harley-Davidson, Inc. ....	11,934,384
1,962,946 Bank of New York Company, Inc. ....	47,032,186	Multi-Line Insurance – 0.7%	
598,622 Northern Trust Corp. ....	20,981,701	220,430 PartnerRe, Ltd. ....	11,422,683
	68,013,887	Multimedia – 10.4%	
Finance – Commercial – 1.1%		6,364,898 AOL Time Warner, Inc.* .....	83,380,164
937,945 CIT Group, Inc. ....	18,383,722	2,206,739 Viacom, Inc. – Class B* .....	89,946,682
Finance – Investment Bankers/Brokers – 2.4%			173,326,846
3,726,841 Charles Schwab Corp. ....	40,436,225	Networking Products – 1.1%	
Financial Guarantee Insurance – 1.8%		1,367,664 Cisco Systems, Inc.* .....	17,916,398
720,185 MGIC Investment Corp. ....	29,743,641	Optical Supplies – 0.9%	
Food – Diversified – 1.0%		358,685 Alcon, Inc. (New York Shares)*,** .....	14,150,123
282,130 Unilever N.V. (New York Shares) .....	17,410,242	Property and Casualty Insurance – 2.8%	
Food – Retail – 0.3%		280,037 W. R. Berkley Corp. ....	11,092,266
93,630 Whole Foods Market, Inc.* .....	4,937,110	455,570 XL Capital, Ltd. – Class A .....	35,192,783
Food – Wholesale/Distribution – 0.9%			46,285,049
528,630 Sysco Corp. ....	15,747,888	Reinsurance – 2.4%	
Health Care Cost Containment – 0.4%		34 Berkshire Hathaway, Inc. – Class A* .....	2,473,500
277,710 First Health Group Corp.* .....	6,762,239	9,765 Berkshire Hathaway, Inc. – Class B* .....	23,660,595
Hospital Beds and Equipment – 0.6%		345,720 RenaissanceRe Holdings, Ltd. ....	13,690,512
193,140 Hillenbrand Industries, Inc. ....	9,330,593		39,824,607
Human Resources – 0.5%		Retail – Discount – 1.5%	
512,015 Robert Half International, Inc.* .....	8,248,562	774,079 Costco Wholesale Corp.* .....	21,720,657
Industrial Gases – 0.3%		139,880 TJX Companies, Inc. ....	2,730,458
92,265 Praxair, Inc. ....	5,330,149		24,451,115

See Notes to Schedules of Investments and Financial Statements.

# Janus Aspen Growth Portfolio

## Schedule of Investments

Shares or Principal Amount	Market Value
Retail – Drug Store – 2.8%	
1,565,300 Walgreen Co. ....	\$ 45,691,107
Schools – 0.4%	
168,427 Apollo Group, Inc. – Class A* .....	7,410,788
Semiconductor Components/Integrated Circuits – 8.5%	
2,181,987 Linear Technology Corp. ....	56,120,706
2,597,341 Maxim Integrated Products, Inc. ....	85,816,147
	141,936,853
Semiconductor Equipment – 0.5%	
216,940 KLA-Tencor Corp.* .....	7,673,168
Super-Regional Banks – 1.0%	
294,085 Fifth Third Bancorp .....	17,218,677
Television – 2.2%	
1,523,501 Univision Communications, Inc. – Class A* .....	37,325,775
Textile-Home Furnishings – 0.2%	
59,240 Mohawk Industries, Inc.* .....	3,373,718
Tools – Hand Held – 0.7%	
343,470 Stanley Works .....	11,877,193
Transportation – Services – 1.7%	
129,280 Expeditors International of Washington, Inc. ....	4,220,992
373,965 United Parcel Service, Inc. – Class B .....	23,589,712
	27,810,704
Total Common Stock (cost \$1,939,401,149) .....	1,658,664,782
Repurchase Agreement – 0.8%	
\$13,800,000 ABN AMRO Bank N.V., 1.26% dated 12/31/02, maturing 1/2/03 to be repurchased at \$13,800,966 collateralized by \$13,082,287 in U.S. Government Agencies 5.875%-9.50%, 3/21/11-4/1/32 \$5,880,819 in U.S. Treasury Bills 0%, 3/20/03-3/27/03; with respective values of \$8,211,393 and \$5,864,607 (cost \$13,800,000) .....	13,800,000
Total Investments (total cost \$1,953,201,149) – 100.6% .....	1,672,464,782
Liabilities, net of Cash, Receivables and Other Assets – (0.6)% .....	(10,248,792)
Net Assets – 100% .....	\$1,662,215,990

## Summary of Investments by Country, December 31, 2002

Country	% of Investment Securities	Market Value
Bermuda	4.5%	\$ 75,346,455
Ireland	0.9%	15,324,679
Netherlands	1.1%	17,410,242
Switzerland	1.5%	25,722,996
United States††	92.0%	1,538,660,410
Total	100.0%	\$1,672,464,782

††Includes Short-Term Securities (91.2% excluding Short-Term Securities)

## Forward Currency Contracts, Open at December 31, 2002

Currency Sold and Settlement Date	Currency Units Sold	Currency Value in \$ U.S.	Unrealized Gain/(Loss)
Swiss Franc 4/15/03	8,400,000	\$6,091,223	\$(410,565)
Total		\$6,091,223	\$(410,565)

See Notes to Schedules of Investments and Financial Statements.

# Statement of Assets and Liabilities

Janus Aspen  
Growth  
Portfolio

As of December 31, 2002  
(all numbers in thousands except net asset value per share)

Assets:	
Investments at cost	\$1,953,201
Investments at value	\$1,672,465
Cash	1,552
Receivables:	
Investments sold	21,482
Portfolio shares sold	1,262
Dividends	582
Other assets	12
<b>Total Assets</b>	<b>1,697,355</b>
Liabilities:	
Payables:	
Investments purchased	29,836
Portfolio shares repurchased	3,841
Advisory fees	955
Accrued expenses	96
Forward currency contracts	411
<b>Total Liabilities</b>	<b>35,139</b>
<b>Net Assets</b>	<b>\$1,662,216</b>
Net Assets – Institutional Shares	\$1,484,889
Shares Outstanding, \$0.001 Par Value (unlimited shares authorized)	101,660
Net Asset Value Per Share	\$ 14.61
Net Assets – Service Shares	\$ 177,327
Shares Outstanding, \$0.001 Par Value (unlimited shares authorized)	12,246
Net Asset Value Per Share	\$ 14.48
Net Assets – Service II Shares*	N/A
Shares Outstanding, \$0.001 Par Value (unlimited shares authorized)*	N/A
Net Asset Value Per Share	N/A

\*Net Assets – Service II Shares and Shares Outstanding are not in thousands.

See Notes to Financial Statements.



# Statement of Operations

For the fiscal year ended December 31, 2002  
(all numbers in thousands)

Janus Aspen  
Growth  
Portfolio

Investment Income:	
Interest	\$ 248
Dividends	12,709
Foreign tax withheld	(79)
<b>Total Investment Income</b>	<b>12,878</b>
Expenses:	
Advisory fees	14,213
Transfer agent expenses	3
Registration fees	109
System fees	18
Custodian fees	142
Insurance expense	8
Audit fees	19
Distribution fees – Service Shares	549
Distribution fees – Service II Shares	N/A
Other expenses	124
<b>Total Expenses</b>	<b>15,185</b>
Expense and Fee Offsets	(56)
Net Expenses	15,129
Excess Expense Reimbursement	—
Net Expenses After Reimbursement	15,129
<b>Net Investment Income/(Loss)</b>	<b>(2,251)</b>
Net Realized and Unrealized Gain/(Loss) on Investments:	
Net realized gain/(loss) from securities transactions	(354,180)
Net realized gain/(loss) from foreign currency transactions	19
Change in net unrealized appreciation/(depreciation) of investments and foreign currency translations	(332,600)
<b>Net Realized and Unrealized Gain/(Loss) on Investments and foreign currency translations</b>	<b>(686,761)</b>
<b>Net Increase/(Decrease) in Net Assets Resulting from Operations</b>	<b>\$(689,012)</b>

See Notes to Financial Statements.

# Statement of Changes in Net Assets

Janus Aspen  
Growth  
Portfolio

2002 2001

For the fiscal year ended December 31  
(all numbers in thousands)

Operations:		
Net investment income/(loss)	\$ (2,251)	\$ 1,846
Net realized gain/(loss) from investment transactions and foreign currency transactions	(354,161)	(864,484)
Change in unrealized net appreciation/(depreciation) of investments and foreign currency translations	(332,600)	(57,057)
<b>Net Increase/(Decrease) in Net Assets Resulting from Operations</b>	<b>(689,012)</b>	<b>(919,695)</b>
Dividends and Distributions to Shareholders:		
Net investment income*	—	(1,848)
Net realized gain from investment transactions*	—	(6,012)
Tax Return of Capital*	—	(80)
<b>Net Decrease from Dividends and Distributions</b>	<b>—</b>	<b>(7,940)</b>
Capital Share Transactions:		
Shares sold		
Institutional Shares	317,792	477,755
Service Shares	71,344	192,816
Service II Shares	N/A	N/A
Reinvested dividends and distributions		
Institutional Shares	—	7,645
Service Shares	—	295
Service II Shares	N/A	N/A
Shares repurchased		
Institutional Shares	(705,285)	(634,488)
Service Shares	(60,589)	(22,885)
Service II Shares	N/A	N/A
<b>Net Increase/(Decrease) from Capital Share Transactions</b>	<b>(376,738)</b>	<b>21,138</b>
<b>Net Increase/(Decrease) in Net Assets</b>	<b>(1,065,750)</b>	<b>(906,497)</b>
Net Assets:		
Beginning of period	2,727,966	3,634,463
End of period	\$ 1,662,216	\$ 2,727,966
Net Assets Consist of:		
Capital (par value and paid-in surplus)*	\$ 3,220,956	\$ 3,599,918
Undistributed net investment income/(loss)*	(28)	(1)
Undistributed net realized gain/(loss) from investments*	(1,277,576)	(923,415)
Unrealized appreciation/(depreciation) of investments and foreign currency translations	(281,136)	51,464
<b>Total Net Assets</b>	<b>\$ 1,662,216</b>	<b>\$ 2,727,966</b>
Transactions in Portfolio Shares – Institutional Shares		
Shares sold	17,613	21,018
Reinvested dividends and distributions	—	332
<b>Total</b>	<b>17,613</b>	<b>21,350</b>
Shares Repurchased	(41,220)	(29,402)
<b>Net Increase/(Decrease) in Portfolio Shares</b>	<b>(23,607)</b>	<b>(8,052)</b>
Shares Outstanding, Beginning of Period	125,267	133,319
<b>Shares Outstanding, End of Period</b>	<b>101,660</b>	<b>125,267</b>
Transactions in Portfolio Shares – Service Shares <sup>(1)</sup>		
Shares sold	4,005,488	9,086,376
Reinvested dividends and distributions	—	12,711
<b>Total</b>	<b>4,005,488</b>	<b>9,099,087</b>
Shares Repurchased	(3,752,593)	(1,076,388)
<b>Net Increase/(Decrease) in Portfolio Shares</b>	<b>252,895</b>	<b>8,022,699</b>
Shares Outstanding, Beginning of Period	11,992,889	3,970,190
<b>Shares Outstanding, End of Period</b>	<b>12,245,784</b>	<b>11,992,889</b>
Transactions in Portfolio Shares – Service II Shares <sup>(1)</sup>		
Shares sold	N/A	N/A
Reinvested dividends and distributions	N/A	N/A
<b>Total</b>	<b>N/A</b>	<b>N/A</b>
Shares Repurchased	N/A	N/A
<b>Net Increase/(Decrease) in Portfolio Shares</b>	<b>N/A</b>	<b>N/A</b>
Shares Outstanding, Beginning of Period	N/A	N/A
<b>Shares Outstanding, End of Period</b>	<b>N/A</b>	<b>N/A</b>
Purchases and Sales of Investment Securities: (excluding short-term securities)		
Purchases of securities	\$ 790,061	\$ 1,557,267
Proceeds from sales of securities	1,080,532	1,395,245
Purchases of long-term U.S. government obligations	—	—
Proceeds from sales of long-term U.S. government obligations	—	—

\*See Note 3 in Notes to Financial Statements.

(1) Transactions in Portfolio Shares – Service and Service II Shares numbers are not in thousands.

See Notes to Financial Statements.

# Financial Highlights – Institutional Shares

<i>For a share outstanding during the fiscal year ended December 31</i>	<i>Janus Aspen Growth Portfolio</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Net Asset Value, Beginning of Period	\$19.89	\$26.48	\$33.65	\$23.54	\$18.48
Income from Investment Operations:					
Net investment income/(loss)	.01	.02	.05	.07	.05
Net gain/(loss) on securities (both realized and unrealized)	(5.29)	(6.56)	(4.59)	10.24	6.36
Total from Investment Operations	(5.28)	(6.54)	(4.54)	10.31	6.41
Less Distributions:					
Dividends (from net investment income)*	—	(.01)	(.06)	(.06)	(.05)
Distributions (from capital gains)*	—	(.04)	(2.57)	(.14)	(1.30)
Total Distributions	—	(.05)	(2.63)	(.20)	(1.35)
Net Asset Value, End of Period	\$14.61	\$19.89	\$26.48	\$33.65	\$23.54
Total Return	(26.51)%	(24.73)%	(14.55)%	43.98%	35.66%
Net Assets, End of Period (in thousands)	\$1,484,889	\$2,490,954	\$3,529,807	\$2,942,649	\$1,103,549
Average Net Assets for the Period (in thousands)	\$1,967,021	\$2,911,331	\$3,734,449	\$1,775,373	\$789,454
Ratio of Gross Expenses to Average Net Assets <sup>(1)</sup>	0.67%	0.66%	0.67%	0.67%	0.68%
Ratio of Net Expenses to Average Net Assets <sup>(1)</sup>	0.67%	0.66%	0.67%	0.67%	0.68%
Ratio of Net Investment Income to Average Net Assets	(0.08)%	0.07%	0.19%	0.30%	0.26%
Portfolio Turnover Rate	36%	48%	47%	53%	73%

\*See Note 3 in Notes to Financial Statements.

(1) See Note 5 in Notes to Financial Statements.

See Notes to Financial Statements.

# Financial Highlights – Service Shares

<i>For a share outstanding during the fiscal year ended December 31</i>	<i>Janus Aspen Growth Portfolio</i>		
	2002	2001	2000
Net Asset Value, Beginning of Period	\$19.76	\$26.36	\$33.52
Income from Investment Operations:			
Net investment income/(loss)	(.04)	(.02)	(.01)
Net gain/(loss) on securities (both realized and unrealized)	(5.24)	(6.54)	(4.58)
Total from Investment Operations	(5.28)	(6.56)	(4.59)
Less Distributions:			
Dividends (from net investment income)*	—	—	—
Distributions (from capital gains)*	—	(.04)	(2.57)
Total Distributions	—	(.04)	(2.57)
Net Asset Value, End of Period	\$14.48	\$19.76	\$26.36
Total Return	(26.72)%	(24.90)%	(14.75)%
Net Assets, End of Period (in thousands)	\$177,327	\$237,012	\$104,656
Average Net Assets for the Period (in thousands)	\$219,594	\$160,200	\$ 29,782
Ratio of Gross Expenses to Average Net Assets <sup>(1)</sup>	0.92%	0.91%	0.92%
Ratio of Net Expenses to Average Net Assets <sup>(1)</sup>	0.92%	0.91%	0.92%
Ratio of Net Investment Income/(Loss) to Average Net Assets	(0.33)%	(0.20)%	(0.07)%
Portfolio Turnover Rate	36%	48%	47%

\*See Note 3 in Notes to Financial Statements.

(1) See Note 5 in Notes to Financial Statements.

# Notes to Schedule of Investments

ADR	American Depository Receipt
GDR	Global Depository Receipt
New York Shares	Securities of foreign companies trading on the New York Stock Exchange
RNC	Represents non-convertible savings shares

\*Non-income-producing security

\*\*A portion of this security has been segregated by the custodian to cover margin or segregation requirements on open futures contracts, forward currency contracts and/or swap spread lock agreements.

† Securities are exempt from the registration requirements of the Securities Act of 1933 and/or Section 4(2) of the Securities Act and may be deemed to be restricted for resale.

ΩRate is subject to change. Rate shown reflects current rate.

ΔSecurity is a defaulted security in Janus Aspen Global Technology Portfolio with accrued interest in the amount of \$40,000, that was written-off December 10, 2001.

βSecurity is a defaulted security in Janus Aspen Flexible Income Portfolio with accrued interest in the amount of \$39,840, that was written-off December 10, 2001.

π Security is a U.S. Treasury Inflation-Protected Security (TIPS).

#The Investment Company Act of 1940 defines affiliates as those companies in which a Portfolio holds 5% or more of the outstanding voting securities at any time during the period ended December 31, 2002.

	Purchases		Sales		Realized Gain/(Loss)	Dividend Income	Market Value at 12/31/02
	Shares	Cost	Shares	Cost			
<i>Janus Aspen Growth Portfolio</i>							
Dionex Corp.	—	—	973,378	\$34,794,420	\$(5,658,907)	—	\$2,908,698

Variable Rate Notes. The interest rate, which is based on specific, or an index of, market interest rates, is subject to change. Rates in the security description are as of December 31, 2002.

Money market funds may hold securities with stated maturities of greater than 397 days when those securities have features that allow a fund to “put” back the security to the issuer or to a third party within 397 days of acquisition. The maturity dates shown in the security descriptions are the stated maturity dates.

Repurchase Agreements held by a Portfolio are fully collateralized, and such collateral is in the possession of the Portfolio’s custodian or subcustodian. The collateral is evaluated daily to ensure its market value equals or exceeds the current market value of the repurchase agreements including accrued interest. In the event of default on the obligation to repurchase, the Portfolio has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. In the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral or proceeds may be subject to legal proceedings.

# Notes to Financial Statements

The following section describes the organization and significant accounting policies of the Portfolios and provides more detailed information about the schedules and tables that appear throughout this report. In addition, the Notes explain how the Portfolios operate and the methods used in preparing and presenting this report.

## I. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Janus Aspen Series (the "Trust") was organized as a Delaware Trust on May 20, 1993, and is registered under the Investment Company Act of 1940 (the "1940 Act") as a no-load, open-end management investment company. The Trust offers fourteen Portfolios or series of shares with differing investment objectives and policies. Twelve Portfolios invest primarily in equity securities: Janus Aspen Growth Portfolio, Janus Aspen Aggressive Growth Portfolio, Janus Aspen Capital Appreciation Portfolio, Janus Aspen Core Equity Portfolio, Janus Aspen Balanced Portfolio, Janus Aspen Growth and Income Portfolio, Janus Aspen Strategic Value Portfolio, Janus Aspen International Growth Portfolio, Janus Aspen Worldwide Growth Portfolio, Janus Aspen International Value Portfolio, Janus Aspen Global Life Sciences Portfolio and Janus Aspen Global Technology Portfolio. One Portfolio invests primarily in income-producing securities: Janus Aspen Flexible Income Portfolio. Janus Aspen Money Market Portfolio invests in short-term money market securities. Each Portfolio is diversified as defined in the 1940 Act, with the exception of the Janus Aspen Aggressive Growth Portfolio, Janus Aspen Capital Appreciation Portfolio, Janus Aspen Strategic Value Portfolio, Janus Aspen International Value Portfolio, Janus Aspen Global Life Sciences Portfolio and Janus Aspen Global Technology Portfolio, which are nondiversified.

Institutional Shares of the Trust are issued and redeemed only in connection with investment in and payments under variable annuity contracts and variable life insurance contracts (collectively "variable insurance contracts"), as well as certain qualified retirement plans.

Service Shares of the Trust are also issued and redeemed only in connection with investment in and payments under variable insurance contracts, as well as certain qualified retirement plans.

Effective December 31, 2001, the Trust issued a new class of shares, the Service II Shares in the Janus Aspen International Growth, Janus Aspen Worldwide Growth, and Janus Aspen Global Technology Portfolios. Janus Capital Management LLC ("Janus Capital") invested \$10,000 of initial seed capital in each Portfolio of the Service II Shares.

Janus Aspen High-Yield Portfolio was liquidated on October 26, 2001. Regulatory approvals were obtained to substitute shares of the Janus Aspen Flexible Income Portfolio for shares of the Janus Aspen High-Yield Portfolio. 60,319 shares in the amount of \$731,670 were exchanged into Janus Aspen Flexible Income Portfolio as a result of the substitution.

Janus Capital invested initial seed capital in the amounts of \$500,000, \$500,000, \$10,000 and \$10,000, respectively, for the following Portfolios on December 31, 2002: Janus Aspen Mid Cap Value Portfolio, Janus Aspen Small Cap Value Portfolio, Janus Aspen Risk-Managed Large Cap Growth Portfolio and Janus Aspen Risk-Managed Large Cap Core Portfolio. Janus Aspen Small Cap Value Portfolio began investment operations on December 31, 2002. These Portfolios each have one class of shares, Service Shares.

The following accounting policies have been consistently followed by the Trust and are in conformity with accounting principles generally accepted in the United States of America in the investment company industry.

As a result of changes in the accounting standards applicable to the Portfolios' financial statements, the Portfolios are no longer required to show certain distribution information as a separate line item. The Portfolios' Financial Highlights included in this report reflect this change.

### Investment Valuation

Securities are valued at the closing price for securities traded on a principal securities exchange (U.S. or foreign) and on the NASDAQ National Market. Securities traded on over-the-counter markets and listed securities for which no sales are reported are valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers making a market for such securities or by a pricing service approved by the Trustees. Short-term investments maturing within 60 days and all money market securities in the Money Market Portfolio are valued at amortized cost, which approximates market value. Foreign securities are converted to U.S. dollars using exchange rates at the close of the New York Stock Exchange. When market quotations are not readily available, or events or circumstances that may affect the value of portfolio securities are identified between the closing of their principle markets and the time the net asset value (NAV) is determined, securities are valued at fair value as determined in good faith under procedures established by and under the supervision of the Portfolios' Trustees.

### Investment Transactions and Investment Income

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Trust is informed of the dividend if such information is obtained subsequent to the ex-dividend date. Interest income is recorded on the accrual basis and includes amortization of discounts and premiums. 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 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.

# Notes to Financial Statements (continued)

## **Forward Currency Transactions and Futures Contracts**

The Portfolios enter into forward currency contracts in order to reduce their exposure to changes in foreign currency exchange rates on their foreign portfolio holdings and to lock in the U.S. dollar cost of firm purchase and sales commitments for securities denominated in or exposed to foreign currencies. A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated rate. The gain or loss arising from the difference between the U.S. dollar cost of the original contract and the value of the foreign currency in U.S. dollars upon closing of such contract is included in net realized gain or loss from foreign currency transactions.

Forward currency contracts held by the Portfolios are fully collateralized by other securities, which are denoted in the accompanying Schedule of Investments. Such collateral is in the possession of the Portfolio's custodian. The collateral is evaluated daily to ensure its market value equals or exceeds the current market value of the corresponding forward currency contracts.

The Portfolios do 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 market prices of securities held at the date of the financial statements. Net unrealized appreciation or depreciation on investments and foreign currency translation arise from changes in the value of assets and liabilities, including investments in securities at the date of the financial statements, resulting from changes in the exchange rates and changes in market prices of securities held.

Currency gain and loss are also calculated on payables and receivables that are denominated in foreign currencies. The payables and receivables are generally related to security transactions and income.

The Portfolios may enter into futures contracts and options on securities, financial indices and foreign currencies, forward contracts and interest-rate swaps and swap-related products. The Portfolios intend to use such derivative instruments primarily to hedge or protect from adverse movements in securities prices, currency rates or interest rates. The use of futures contracts and options may involve risks such as the possibility of illiquid markets or imperfect correlation between the value of the contracts and the underlying securities, or that the counterparty will fail to perform its obligations.

Futures contracts are marked to market daily, and the daily variation margin is recorded as an unrealized gain or loss. When a contract is closed, a realized gain or loss is recorded equal to the difference between the opening and closing value of the contract. Generally, open forward and futures contracts are marked to market (i.e., treated as realized and subject to distribution) for federal income tax purposes at fiscal year-end.

Foreign-denominated assets and forward currency contracts may involve more risks than domestic transactions, including currency

risk, political and economic risk, regulatory risk and market risk. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

## **Initial Public Offerings**

The Portfolios may invest in initial public offerings (IPOs). IPOs and other investment techniques may have a magnified performance impact on a portfolio with a small asset base. The Portfolios may not experience similar performance as their assets grow.

## **Additional Investment Risk**

A portion of the Janus Aspen Flexible Income Portfolio may be invested in lower-rated debt securities that have a higher risk of default or loss of value because of changes in the economy, or political environment, or adverse developments specific to the issuer.

## **Restricted Security Transactions**

Restricted securities held by a Portfolio may not be sold except in exempt transactions or in a public offering registered under the Securities Act of 1933. The risk of investing in such securities is generally greater than the risk of investing in the securities of widely held, publicly traded companies. Lack of a secondary market and resale restrictions may result in the inability of a Portfolio to sell a security at a fair price and may substantially delay the sale of the security which each portfolio seeks to sell. In addition, these securities may exhibit greater price volatility than securities for which secondary markets exist.

## **Dividend Distributions**

Each Portfolio, except the Money Market Portfolio, makes at least semiannual distributions of substantially all of its investment income and at least an annual distribution of its net realized capital gains, if any. Dividends are declared daily and distributed monthly for the Janus Aspen Money Market Portfolio. The majority of dividends and capital gains distributions from a Portfolio will be automatically reinvested into additional shares of that Portfolio.

## **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.

## **Federal Income Taxes**

No provision for income taxes is included in the accompanying financial statements as the Portfolios intend to distribute to shareholders all taxable investment income and realized gains and otherwise comply with Subchapter M of the Internal Revenue Code applicable to regulated investment companies.

## 2. INVESTMENT ADVISORY AGREEMENTS AND OTHER TRANSACTIONS WITH AFFILIATES

Each equity Portfolio is subject to advisory fees payable to Janus Capital based upon an annual rate of .65% of average net assets. The Janus Aspen Flexible Income Portfolio is subject to advisory fees payable to Janus Capital based upon annual rates of .65% of the first \$300 million of average net assets plus .55% of average net assets in excess of \$300 million. The Janus Aspen Money Market Portfolio's advisory fee rate is .25% of average net assets.

Janus Capital has agreed to reduce its fee to the extent normal operating expenses exceed 1% of the average net assets of the Janus Aspen Flexible Income Portfolio and .50% of the average net assets of the Janus Aspen Money Market Portfolio for a fiscal year. Janus Capital has also agreed to reduce its fee to the extent that normal operating expenses exceed 1.25% of the average net assets of the Janus Aspen Core Equity, Janus Aspen Strategic Value, Janus Aspen International Value, Janus Aspen Global Life Sciences and Janus Aspen Global Technology Portfolios.

Janus Capital has agreed to continue these fee waivers and reductions until at least the next annual renewal of the advisory contracts. The distribution fee applicable to the Service and Service II Shares is not included in these expense limits.

During the year ended December 31, 2002, Janus Capital reimbursed Janus Aspen Flexible Income Portfolio for certain trading errors, the amounts of which were insignificant.

Janus Services LLC ("Janus Services"), a wholly owned subsidiary of Janus Capital, receives certain out-of-pocket expenses for transfer agent services.

Certain officers and trustees of the Portfolios may also be officers and/or directors of Janus Capital; however, such officers and trustees receive no compensation from the Portfolios.

Janus Distributors LLC, a wholly owned subsidiary of Janus Capital, is a distributor of the Portfolios. The Service and Service II Shares have each adopted a Distribution and Shareholder Servicing Plan (the "Plans") pursuant to Rule 12b-1 under The 1940 Act. The Plans authorize payments by the Portfolios in connection with the distribution of the Service and Service II Shares at an annual rate, as determined from time to time by the Board of Trustees, of up to .25% of the Service and Service II Shares' average daily net assets.

DST Systems, Inc. (DST), an affiliate of Janus Capital through a degree of common ownership, provides a shareholder accounting system to the Portfolios. DST Securities, Inc., a wholly owned subsidiary of DST, is designated as an introductory broker on certain portfolio transactions. Brokerage commissions paid to DST Securities, Inc. serve to reduce transfer agent fees and expenses. Brokerage commissions paid, fees reduced and the net fees paid to DST for the period ended December 31, 2002, are noted below.

<i>Portfolio</i>	<i>DST Securities, Inc. Commissions Paid</i>	<i>Portfolio Expense Reduction</i>	<i>DST Systems Costs</i>
Janus Aspen Growth Portfolio	\$48,016	\$36,021	\$(31,660)



# Notes to Financial Statements (continued)

## 3. FEDERAL INCOME TAX

The tax components of capital shown in the table below represent: (1) distribution requirements the Portfolios must satisfy under the income tax regulations, (2) losses or deductions the Portfolios may be able to offset against income and gains realized in future years, and (3) unrealized appreciation or depreciation of investments for federal income tax purposes.

Accumulated capital losses noted below represent net capital loss carryovers as of December 31, 2002 that may be available to offset future realized capital gains and thereby reduce future taxable gain distributions. These carryovers expire between December 31, 2008 and December 31, 2010.

In 2002, the Portfolios noted below incurred "Post-October" losses during the period from November 1 through December 31, 2002. These losses will be deferred for tax purposes and recognized in 2003.

Other book to tax differences in 2002 primarily consist of foreign currency contract adjustments. The Portfolios have elected to treat gains and losses on forward foreign currency contracts as capital gains and losses. 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.

	<i>Undistributed Ordinary Income</i>	<i>Undistributed Long-Term Gains</i>	<i>Accumulated Capital Losses</i>	<i>Post- October Deferral</i>	<i>Net Tax AP/DP on Foreign Currency and Futures</i>	<i>Net Tax AP/DP on Investments</i>
Janus Aspen Growth Portfolio	—	—	\$(1,200,369,393)	\$(75,699,675)	\$(17,003)	\$(282,654,036)
AP/DP Appreciation/(Depreciation)						

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investments for federal income tax purposes as of December 31, 2002 are noted below. Unrealized appreciation and unrealized depreciation

in the table below exclude appreciation/depreciation on foreign currency translations. The primary difference between book and tax appreciation or depreciation of investments is wash sale loss deferrals.

<i>Portfolio</i>	<i>Federal Tax Cost</i>	<i>Unrealized Appreciation</i>	<i>Unrealized (Depreciation)</i>
Janus Aspen Growth Portfolio	\$1,955,118,818	\$139,732,164	\$(422,386,200)

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. Certain permanent differences such as tax returns of capital and net investment losses noted below have been reclassified to paid-in capital.

<i>Portfolio</i>	<i>Distributions</i>			<i>Net Investment Loss</i>
	<i>From Ordinary Income</i>	<i>From Long-Term Capital Gains</i>	<i>Tax Return of Capital</i>	
Janus Aspen Growth Portfolio	—	—	—	\$(2,223,548)

#### 4. EXPENSES

The Portfolios' expenses may be reduced through expense-reduction arrangements. Those arrangements include the use of broker commissions paid to DST Securities, Inc. and uninvested cash balances earning interest with the Portfolios' custodian. The Statements of Operations reflect the total expenses before any offset, the amount of the offset and the net expenses. The expense ratios listed in the Financial Highlights reflect expenses prior to any expense offset (gross expense ratio) and after expense offsets (net expense ratio). Both expense ratios reflect expenses after waivers.

Expenses 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.

Janus Aspen Service and Service II Shares each pay a distribution fee of up to .25% of average net assets.

#### 5. EXPENSE RATIOS

Listed below are the gross expense ratios for the various Portfolios that would be in effect, absent the waiver of certain fees, and offsets.

Portfolio	Institutional Shares					Service Shares			Service II Shares
	2002	2001	2000	1999	1998	2002	2001	2000	2002
Janus Aspen Growth Portfolio	0.67%	0.66%	0.67%	0.69%	0.75%	0.92%	0.91%	0.92%	N/A

# Report of Independent Accountants

To the Trustees and Shareholders  
of Janus Aspen Series

In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Janus Aspen Growth Portfolio, Janus Aspen Aggressive Growth Portfolio, Janus Aspen Capital Appreciation Portfolio, Janus Aspen Core Equity Portfolio, Janus Aspen Balanced Portfolio, Janus Aspen Growth and Income Portfolio, Janus Aspen Strategic Value Portfolio, Janus Aspen International Growth Portfolio, Janus Aspen Worldwide Growth Portfolio, Janus Aspen International Value Portfolio (formerly, Janus Aspen Global Value Portfolio), Janus Aspen Global Life Sciences Portfolio, Janus Aspen Global Technology Portfolio, Janus Aspen Flexible Income Portfolio and Janus Aspen Money Market Portfolio (fourteen of the portfolios of Janus Aspen Series, hereafter referred to as the "Portfolios") at December 31, 2002, the results of each of their operations, the changes in each of their net assets and the financial highlights for each of the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolios' management; our responsibility is to express an opinion on these financial statements

based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2002, by correspondence with the custodians and brokers and the application of alternative auditing procedures where securities purchased had not been received, provide a reasonable basis for the opinion expressed above.



PricewaterhouseCoopers LLP  
Denver, Colorado  
February 6, 2003

# Explanations of Charts, Tables and Financial Statements

(unaudited)

## 1. PERFORMANCE OVERVIEWS

Performance overview graphs on the previous pages compare the performance of a \$10,000 investment in each Portfolio (from inception) with one or more widely used market indices through December 31, 2002.

When comparing the performance of a Portfolio with an index, keep in mind that market indices do not include brokerage commissions that would be incurred if you purchased the individual securities in the index. They also do not include taxes payable on dividends and interest or operating expenses incurred if you maintained a Portfolio invested in the index.

Average annual total returns are quoted for each class of the Portfolio. 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.

## 2. SCHEDULES OF INVESTMENTS

Following the performance overview section is each Portfolio's Schedule of Investments. This schedule reports the industry concentrations and types of securities held in each 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.).

The market value of each security is quoted as of the last day of the reporting period. The values of securities denominated in foreign currencies are converted into U.S. dollars.

Portfolios that invest in foreign securities also provide a summary of investments by country. This summary reports the Portfolio's exposure to different countries by providing the percentage of securities invested in each country.

### 2A. FORWARD CURRENCY CONTRACTS

A table listing forward currency contracts follows each Portfolio's Schedule of Investments (if applicable). Forward currency contracts are agreements to deliver or receive a preset amount of currency at a future date. Forward currency contracts are used to hedge against foreign currency risk in the Portfolio's long-term holdings.

The table provides the name of the foreign currency, the settlement date of the contract, the amount of the contract, the value of the currency in U.S. dollars and the amount of unrealized gain or loss. The amount of unrealized gain or loss reflects the

change in currency exchange rates from the time the contract was opened to the last day of the reporting period.

### 2B. FUTURES

A table listing future contracts follows each Fund's Schedule of Investments (if applicable). Futures contracts are contracts that obligate the buyer to receive and the seller to deliver an instrument or money at a specified price on a specified date. Futures are used to hedge against adverse movements in securities prices, currency risk or interest rates.

The table provides the name of the contract, number of contracts held, the expiration date, the principal amount, value and the amount of unrealized gain or loss. The amount of unrealized gain or loss reflects the marked to market amount for the last day of the fiscal period.

## 3. STATEMENT OF ASSETS AND LIABILITIES

This statement is often referred to as the "balance sheet." It lists the assets and liabilities of the Portfolios on the last day of the reporting period.

The Portfolios' 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 stocks owned and the receivable for Portfolio shares sold to investors but not yet settled. The Portfolios' 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 last section of this statement reports the net asset value (NAV) per share on the last day of the reporting period for each class of the Portfolio. The NAV is calculated by dividing the Portfolios' net assets (assets minus liabilities) by the number of shares outstanding.

## 4. STATEMENT OF OPERATIONS

This statement details the Portfolios' income, expenses, gains and losses on securities and currency transactions, and appreciation or depreciation of current Portfolio holdings.

The first section in this statement, entitled "Investment Income," reports the dividends earned from stocks and interest earned from interest-bearing securities in the Portfolio.

The next section reports the expenses and expense offsets incurred by the Portfolios, including the advisory fee paid to the investment adviser.

# Explanations of Charts, Tables and Financial Statements

(unaudited) (continued)

The last section lists the increase or decrease in the value of securities held in the Portfolios. Portfolios realize a gain (or loss) when they sell their position in a particular security. An unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolios during the 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.

## 5. STATEMENT OF CHANGES IN NET ASSETS

This statement reports the increase or decrease in the Portfolios’ net assets during the reporting period. Changes in the Portfolios’ net assets are attributable to investment operations, dividends, distributions and capital share transactions. This is important to investors because it shows exactly what caused the Portfolios’ 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 Portfolios’ investment performance. The Portfolios’ net assets may also change as a result of dividend and capital gains distributions to investors. If investors receive their dividends in cash, money is taken out of the Portfolio to pay the distribution. If investors reinvest their dividends, the Portfolios’ net assets will not be affected. If you compare each Portfolio’s “Net Decrease from Dividends and Distributions” to the “Reinvested dividends and distributions,” you’ll notice that dividend distributions had little effect on each Portfolio’s net assets. This is because the majority of Janus investors reinvest their distributions.

The reinvestment of dividends is included under “Capital Share Transactions.” “Capital Shares” refers to the money investors contribute to the Portfolios through purchases or withdrawal via redemptions. Each Portfolio’s net assets will increase and decrease in value as investors purchase and redeem shares from a Portfolio.

The section entitled “Net Assets Consist of” breaks down the components of the Portfolios’ net assets. Because Portfolios must distribute substantially all earnings, you’ll notice that a significant portion of net assets is shareholder capital.

## 6. FINANCIAL HIGHLIGHTS

This schedule provides a per-share breakdown of the components that affect the net asset value (NAV) for current and past reporting periods for each class of the Portfolio. Not only does this table provide you with total return, it also reports total distributions, asset size, expense 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 per share, which comprises dividends and interest income earned on securities held by the Portfolios. Following is the total of gains, realized and unrealized. Dividends and distributions are then subtracted to arrive at the NAV per share at the end of the period.

The next line reflects the total return reported the last day of the period.

Also included are the expense ratios, or the percentage of net assets that was used to cover operating expenses during the period. Expense ratios vary across the Portfolios for a number of reasons, including the differences in management fees, the frequency of dividend payments and the extent of foreign investments, which entail greater transaction costs.

The Portfolios’ expenses may be reduced through expense-reduction arrangements. These arrangements include the use of brokerage commissions, uninvested cash balances earning interest or balance credits. The Statement of Operations reflects total expenses before any such offset, the amount of offset and the net expenses. The expense ratios listed in the Financial Highlights reflect total expenses both prior to any expense offset and after the offsets.

The ratio of net investment income/(loss) summarizes the income earned less expenses divided by the average net assets of a Portfolio during the reporting period. Don’t confuse this ratio with a Portfolio’s yield. The net investment income ratio is not a true measure of a Portfolio’s yield because it doesn’t take into account the dividends distributed to the Portfolio’s investors.

The next ratio is the portfolio turnover rate, which measures the buying and selling activity in a Portfolio. Portfolio turnover is affected by market conditions, changes in the size of a Portfolio, the nature of the Portfolio’s investments and the investment style of the portfolio manager. A 100% rate implies that an amount equal to the value of the entire Portfolio is turned over in a 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 Portfolio is sold every six months.

# Trustees and Officers (unaudited)

The following are the Trustees and officers of the Trust, together with a brief description of their principal occupations during the last five years.

Each Trustee has served in that capacity since he was originally elected or appointed. The Trustees do not serve a specified term of office. Each Trustee will hold office until the termination of the Trust or his earlier death, resignation, retirement, incapacity, or removal. The retirement age for Trustees is 72. The Funds' Nominating and Governance Committee will consider nominees for the position of Trustee recommended by shareholders. Shareholders may submit the name of a

candidate for consideration by the Committee by submitting their recommendations to the Trust's Secretary. Each Trustee is currently a Trustee of two other registered investment companies advised by Janus Capital: Janus Investment Fund and Janus Adviser Series. Collectively, these three registered investment companies consist of 59 series or funds.

The Portfolios' officers are elected annually by the Trustees for a one-year term. Each portfolio manager also manages other Janus Capital accounts. Certain officers also serve as officers of Janus Investment Fund and Janus Adviser Series.

## Trustees

Name, Age and Address	Positions Held with Portfolios	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
<i>Interested Trustee</i>					
Thomas H. Bailey* 100 Fillmore Street Denver, CO 80206 Age 65	Chairman and Trustee	5/93-Present	Formerly, President (1978-2002) and Chief Executive Officer (1994-2002) of Janus Capital or Janus Capital Corporation; President and Director (1994-2002) of the Janus Foundation. Chairman and Director (1978-2002) of Janus Capital Corporation; and Director (1997-2001) of Janus Distributors Inc.	59	N/A
<i>Independent Trustees</i>					
William F. McCalpin 100 Fillmore Street Denver, CO 80206 Age 45	Trustee	6/02-Present	Executive Vice President and Chief Operating Officer of the Rockefeller Brothers Fund (a private family foundation). Formerly, Director of Investments (1991-1998) of the John D. and Catherine T. MacArthur Foundation (a private family foundation).	59	Founding Director and Board Chair, Solar Development Foundation; Trustee and Vice President, Asian Cultural Council.
John W. McCarter, Jr. 100 Fillmore Street Denver, CO 80206 Age 64	Trustee	6/02-Present	President and Chief Executive Officer of the Field Museum of Natural History. Formerly, Senior Vice President (1987-1997) of Booz-Allen & Hamilton, Inc. (a management consulting firm).	59	Chairman of the Board, Divergence LLC; Director of A.M. Castle & Co., Harris Insight Funds, W.W. Grainger Inc.; Trustee of WTTW (Chicago public television station), the University of Chicago and Chicago Public Education Fund.
Dennis B. Mullen 100 Fillmore Street Denver, CO 80206 Age 59	Trustee	9/93-Present	Private Investor. Formerly (1997-1998) Chief Financial Officer – Boston Market Concepts, Boston Chicken, Inc., Golden, CO (a restaurant chain)	59	Board member, Red Robin Gourmet Burgers, Inc.

\*The Portfolios are treating Mr. Bailey as an "interested person" of the Trust by virtue of his past positions and continuing relationships with Janus Capital.

# Trustees and Officers (unaudited) (continued)

## Trustees (cont.)

Name, Age and Address	Positions Held with Portfolios	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
<i>Independent Trustees (cont.)</i>					
James T. Rothe 100 Fillmore Street Denver, CO 80206 Age 59	Trustee	1/97-Present	Professor of Business, University of Colorado, Colorado Springs. Formerly, Distinguished Visiting Professor of Business (2001-2002), Thunderbird (American Graduate School of International Management), Phoenix, AZ; and Principal (1999) of Phillips-Smith Retail Group, Colorado Springs, CO (a venture capital firm).	59	Director of Optika, Inc. and NeoCore Corp.
William D. Stewart 100 Fillmore Street Denver, CO 80206 Age 58	Trustee	9/93-Present	Corporate Vice President and General Manager of MKS Instruments – HPS Products, Boulder, CO (a manufacturer of vacuum fittings and valves)	59	N/A
Martin H. Waldinger 100 Fillmore Street Denver, CO 80206 Age 64	Trustee	9/93-Present	Consultant	59	N/A

## Officers

Name, Age and Address	Positions Held with Portfolios	Term of Office** and Length of Time Served	Principal Occupations During the Past Five Years
Laurence J. Chang* 100 Fillmore Street Denver, CO 80206 Age 37	Executive Vice President and Co-Portfolio Manager Worldwide Growth Portfolio	1/00-Present	Vice President of Janus Capital. Formerly, Analyst (1993-1998) for Janus (2002) for other Janus accounts and Capital Corporation.
Jonathan D. Coleman* 100 Fillmore Street Denver, CO 80206 Age 31	Executive Vice President and Portfolio Manager Aggressive Growth Portfolio	2/02-Present	Vice President of Janus Capital. Formerly, Co-Portfolio Manager (1997-2000) for other Janus accounts and Analyst (1994-1997 and 2000-2002) for Janus Capital Corporation.
David J. Corkins* 100 Fillmore Street Denver, CO 80206 Age 36	Executive Vice President and Portfolio Manager Growth and Income Portfolio	11/97-Present	Vice President of Janus Capital. Formerly, Analyst (1995-1997) for Janus Capital Corporation.
David C. Decker* 100 Fillmore Street Denver, CO 80206 Age 36	Executive Vice President and Portfolio Manager Strategic Value Portfolio	12/99-Present	Vice President of Janus Capital. Formerly, Portfolio Manager (1996-2002) for other Janus accounts and Assistant Vice President (1996-1997) of Janus Capital Corporation.
Helen Young Hayes* 100 Fillmore Street Denver, CO 80206 Age 40	Executive Vice President and Co-Portfolio Manager Worldwide Growth Portfolio and International Growth Portfolio	3/94-Present	Vice President and Managing Director of Janus Capital and Director of Janus Capital Group Inc. Formerly, Director (2000-2002) for Janus Capital Corporation.
C. Mike Lu* 100 Fillmore Street Denver, CO 80206 Age 33	Executive Vice President and Portfolio Manager Global Technology Portfolio	12/99-Present	Vice President of Janus Capital. Formerly, Analyst (1991-1998) for Janus Capital Corporation.
Brent A. Lynn* 100 Fillmore Street Denver, CO 80206 Age 38	Executive Vice President and Co-Portfolio Manager International Growth Portfolio	1/01-Present	Vice President of Janus Capital. Formerly, Analyst (1991-2001) for Janus Capital Corporation.
Thomas R. Malley* 100 Fillmore Street Denver, CO 80206 Age 34	Executive Vice President and Portfolio Manager Global Life Sciences Portfolio	12/99-Present	Vice President of Janus Capital. Formerly, Analyst (1991-1998) for Janus Capital Corporation.
Karen L. Reidy* 100 Fillmore Street Denver, CO 80206 Age 35	Executive Vice President and Portfolio Manager Balanced Portfolio and Core Equity Portfolio	1/00-Present	Vice President of Janus Capital. Formerly, Analyst (1995-1999) for Janus Capital Corporation.
Blaine P. Rollins* 100 Fillmore Street Denver, CO 80206 Age 35	Executive Vice President and Portfolio Manager Growth Portfolio	1/00-Present	Vice President of Janus Capital. Formerly, Portfolio Manager (1996-1999) for other Janus accounts.
Scott W. Schoelzel* 100 Fillmore Street Denver, CO 80206 Age 44	Executive Vice President and Portfolio Manager Capital Appreciation Portfolio	5/97-Present	Vice President of Janus Capital.
Ronald V. Speaker* 100 Fillmore Street Denver, CO 80206 Age 38	Executive Vice President and Portfolio Manager Flexible Income Portfolio	5/93-Present	Vice President of Janus Capital. Formerly, Portfolio Manager (1995-1998) for other Janus accounts.

\*"Interested person" of the Trust by virtue of positions with Janus Capital.

\*\*Officers are elected annually by the Trustees for a one-year term.



# Trustees and Officers (unaudited) (continued)

## Officers (cont.)

Name, Age and Address	Positions Held with Fund	Term of Office** and Length of Time Served	Principal Occupations During the Past Five Years
J. Eric Thorderson* 100 Fillmore Street Denver, CO 80206 Age 41	Executive Vice President and Portfolio Manager Money Market Portfolio	1/01-Present	Vice President of Janus Capital. Formerly, Senior Analyst (1996-1999) for Janus Capital Corporation.
Jason P. Yee* 100 Fillmore Street Denver, CO 80206 Age 33	Executive Vice President and Portfolio Manager International Value Portfolio	3/01-Present	Vice President of Janus Capital. Formerly, Portfolio Manager and Managing Director (1996-2000) for Bee & Associates and Analyst (2000-2001) for Janus Capital Corporation.
Thomas A. Early* 100 Fillmore Street Denver, CO 80206 Age 48	Vice President and General Counsel	3/98-Present	Vice President, General Counsel, Chief Corporate Affairs Officer, Secretary and Interim Director of Janus Capital; Vice President, General Counsel and Secretary of Janus Services LLC, Janus Capital International LLC and Janus Institutional Services LLC; Vice President, General Counsel and Director to Janus International (Asia) Limited and Janus International Limited; Vice President, General Counsel and Secretary to Janus Distributors LLC and the Janus Foundation; and Director for Janus Capital Trust Manager Limited, Janus World Protected Funds and Janus World Funds. Formerly, Director (2001) of Janus Distributors, Inc. and Janus Services, Inc.; Vice President, General Counsel, secretary and Director (2000-2002) of Janus International Holding, Inc.; Executive Vice President and General Counsel (1997-1998) of Prudential Investments Fund Management LLC; and Vice President and General Counsel (1994-1997) of Prudential Retirement Services.
Anita E. Falicia 100 Fillmore Street Denver, CO 80206 Age 34	Vice President, Chief Financial Officer Treasurer and Principal Accounting Officer	10/02-Present	Vice President of Investment Accounting of Janus Capital. Formerly, Assistant Vice President (2000-2002) of Investment Accounting of Janus Capital or Janus Capital Corporation; Director (1999-2000) of Investment Accounting of Janus Capital Corporation; and Director (1997-1999) of Fund Accounting of Janus Capital Corporation.
Bonnie M. Howe* 100 Fillmore Street Denver, CO 80206 Age 37	Vice President	12/99-Present	Vice President and Assistant General Counsel to Janus Capital, Janus Distributors LLC and Janus Services LLC. Formerly, Assistant Vice President (1997-1999) and Associate Counsel (1995-1999) for Janus Capital Corporation and Assistant Vice President (1998-2000) for Janus Service Corporation.
Kelley Abbott Howes* 100 Fillmore Street Denver, CO 80206 Age 37	Vice President and Secretary	12/99-Present	Vice President of Domestic Funds and Assistant General Counsel of Janus Capital; Vice President and Assistant General Counsel of Janus Distributors LLC and Janus Services LLC. Formerly, Assistant Vice President (1997-1999) of Janus Capital Corporation; Chief Compliance Officer, Director and President (1997-1999) of Janus Distributors, Inc.; and Assistant Vice President (1998-2000) of Janus Service, Corp.

\*"Interested person" of the Trust by virtue of positions with Janus Capital.

\*\*Officers are elected annually by the Trustees for a one-year term.

Name, Age and Address	Positions Held with Fund	Term of Office** and Length of Time Served	Principal Occupations During the Past Five Years
David R. Kowalski 100 Fillmore Street Denver, CO 80206 Age 45	Vice President	6/02-Present	Vice President and Chief Compliance Officer of Janus Capital and Janus Distributors LLC; and Assistant Vice President of Janus Services LLC. Formerly, Senior Vice President and Director (1985-2000) of Mutual Fund Compliance for Van Kampen Funds.
Loren M. Starr* 100 Fillmore Street Denver, CO 80206 Age 41	Vice President and Chief Executive Officer	9/02-Present	Vice President, Chief Financial Officer and Interim Director of Janus Capital; Vice President, Treasurer and Chief Financial Officer of Janus Services LLC and Janus International Limited; Vice President of, Treasurer and Chief Financial Officer of Janus Distributors LLC, Janus Capital International LLC and Janus Institutional Services LLC; and Director of Janus Capital Trust Manager Limited; Janus World Principal Protected Funds and Janus World Funds. Formerly, Vice President of Finance, Treasurer, CFO (2001-2002) and Director (2002) for Janus International Holding, Inc.; Managing Director, Treasurer and Head of Corporate Finance and Reporting (1998-2001) for Putnam Investments; and Senior Vice President of Financial Planning and Analysis (1996-1998) for Lehman Brothers, Inc.
Heidi J. Walter* 100 Fillmore Street Denver, CO 80206 Age 35	Vice President	4/00-Present	Vice President and Assistant General Counsel to Janus Capital and Janus Services LLC. Formerly, Vice President and Senior Legal Counsel (1995-1999) for Stein Roe & Farnham, Inc.

\*"Interested person" of the Trust by virtue of positions with Janus Capital.

\*\*Officers are elected annually by the Trustees for a one-year term.

# Janus Aspen Series

Janus Aspen Growth and Income Portfolio



# Janus Aspen Growth and Income Portfolio

David Corkins,  
portfolio manager

Fear was in abundance during the year as the markets reacted to accounting irregularities, corporate scandals and war talk by sending stocks to five-year lows in early October. Underpinning the pessimism was a “stop and start” economic recovery whose few signs of strength were limited to housing and automobile sales. Surprisingly, even as manufacturing activity



and consumer confidence experienced alarming drops late in the period, stocks moved dramatically higher. However, by December, geopolitical tensions, rising unemployment and lackluster holiday sales put a damper on the festive mood. When all was said and done, the major market averages had racked up losses for a third consecutive year – the first time this has occurred since the Great Depression.

Given the tremendous uncertainty, we attempted to be both opportunistic and balanced in our security selection. As always, we were actively on the lookout for attractive businesses that offered us the opportunity to capitalize on volatility and weakness. But as Winston Churchill once remarked, “However beautiful the strategy, you should occasionally look at the results.” For the fiscal year ended December 31, 2002, Janus Aspen Growth and Income Portfolio declined 21.54% for its Institutional Shares and 21.77% for its Service Shares, while its benchmark, the Standard & Poor’s 500® Index, fell 22.09%.<sup>(1)</sup> This performance earned the Portfolio’s Institutional Shares a second-quartile ranking for the one-year period ended December 31, 2002, placing it 54th out of 197 variable annuity large-cap core funds tracked by Lipper, a Reuters Company and leading mutual fund rating company.<sup>(2)</sup>

Despite the volatile environment, Anheuser-Busch, the world’s largest brewer, proved it could thrive in both good times and bad. With nearly 50% of the U.S. beer market, the company has been able to exercise rare pricing power amid a contracting economy, helping it to maintain substantial leverage in marketing and distribution – and we believe all but ensuring further market share gains.

Pricing power also benefited Berkshire Hathaway. Chairman and CEO Warren Buffett successfully managed through the company’s post-September 11 losses in its insurance business to take advantage of rising prices and leveraged his AAA rating to boost market share – both of which we believe signal strong relative performance in years to come. In addition, the increased float income from these businesses could enable Buffett to invest in even more compelling opportunities in the future.

Elsewhere, a sweeping two-year restructuring effort helped revive household products giant Procter & Gamble. By focusing on higher-revenue, higher-margin businesses, such as core brands Tide and the recently acquired Clairol, and divesting more capital-intensive units, the company hoped to produce

as much as \$2 billion in annual cost savings. All in all, P&G continued to exceed our expectations with double-digit gains in volume, sales and profits.

In contrast, our disappointments involved stocks whose downside risk turned out to be more damaging than we anticipated. This was certainly the case with consumer finance company Household International, which moved sharply lower on its announcement in August that it would restate earnings dating back to 1994. Later, the firm struggled with rising defaults as well as ensuing government regulations requiring lenders to raise capital ratios. Consequently, we liquidated Household International at a loss.

J.P. Morgan Chase & Co., the nation’s second-largest bank, hindered our performance as well. The company was embroiled in a contentious lawsuit surrounding disputed trades with the now-bankrupt Enron. Investors feared that J.P. Morgan would recover none of the \$1 billion it sought from insurers. However, a \$600 million settlement was reached shortly after period-end. Either way, we believe the bank stood to take a substantial charge against fourth-quarter earnings, convincing us to cut our losses and trim the position.

Longtime holding General Electric also faltered as a deceleration in the company’s Power Systems and Aircraft Engines divisions worked against the stock. However, we are gratified by the industrial giant’s efforts to improve its business mix, as evidenced by sound investments in medical technology and plans to sell off low-margin, low-return units.

As we enter 2003, it’s important to take lessons from the past as well as look to the future for opportunity. As my professor and noted business guru Edwards Deming liked to say, “Learning is not compulsory; neither is survival.” We’re constantly looking for new ideas for the Portfolio as well as taking advantage of short-term disruptions to add to our existing holdings.

Thank you for your continued investment in Janus Aspen Growth and Income Portfolio.

## Portfolio Asset Mix

(% of Net Assets)	December 31, 2002	December 31, 2001
Equities	88.8%	84.3%
Top 10 Equities	27.9%	27.2%
Number of Stocks	75	74
Fixed Income Securities	10.6%	6.9%
Cash and Cash Equivalents	0.6%	8.8%

(1) All returns include reinvested dividends and capital gains.

(2) Lipper, a Reuters Company, is a nationally recognized organization that ranks the performance of mutual funds within a universe of funds that have similar investment objectives. Rankings are historical and are based on total return with capital gains and dividends reinvested.

Past performance does not guarantee future results.

There is no assurance that the investment process will consistently lead to successful investing.

## Average Annual Total Return

For the Periods Ended December 31, 2002

Institutional Shares (Inception Date 5/1/98)	
1 Year	(21.54)%
From Inception	4.30%

S&P 500® Index	
1 Year	(22.09)%
From Inception of Institutional Shares	(3.57)%

Service Shares (Inception Date 12/31/99)	
1 Year	(21.77)%
From Portfolio Inception	4.03%

Returns shown for Service Shares for periods prior to their inception are derived from the historical performance of Institutional Shares, adjusted to reflect the higher operating expenses of Service Shares.

Due to market volatility, current performance may be higher or lower than the figures shown. Call 1-800-504-4440 or visit janus.com for more current performance information.

Past performance is no guarantee of future results and investment results and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Total return includes reinvestment of dividends and capital gains.

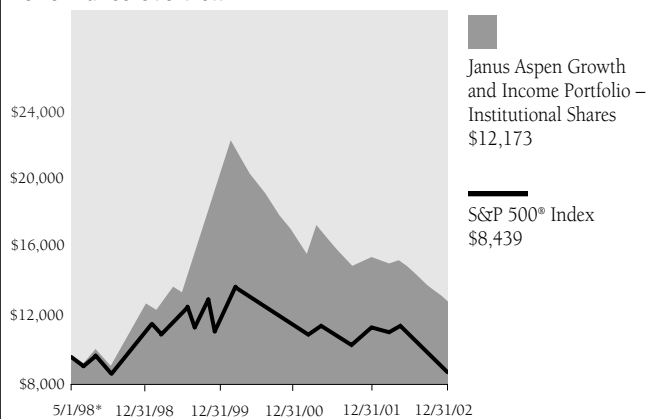
The S&P 500® is the Standard & Poor's Composite Index of 500 stocks, a widely recognized, unmanaged index of common stock prices. The Portfolio may differ significantly from the securities held in the index. The index is not available for direct investment; therefore its performance does not reflect the expenses associated with the active management of an actual portfolio.

These returns do not reflect the charges and expenses of any particular insurance product or qualified plan.

## Average Annual Total Return – for the periods ended December 31, 2002

Janus Aspen Growth and Income Portfolio	One Year	Since 5/1/98*
– Institutional Shares	(21.54)%	4.30%
S&P 500® Index	(22.09)%	(3.57)%

### Performance Overview



\*The Portfolio's inception date.

Source – Lipper, a Reuters Company 2002.

See "Explanations of Charts, Tables and Financial Statements."

## Schedule of Investments

Shares or Principal Amount	Market Value	Shares or Principal Amount	Market Value
Common Stock – 85.2%		Casino Hotels – 0.6%	
Advertising Sales – 0.4%		78,815 Park Place Entertainment Corp. *	\$ 662,046
13,370 Lamar Advertising Co. *	\$ 449,901	Chemicals – Diversified – 1.8%	
Aerospace and Defense – 1.0%		51,198 E.I. du Pont de Nemours and Co. ....	2,170,795
15,355 General Dynamics Corp. ....	1,218,726	Commercial Services – Finance – 1.0%	
Airlines – 0.2%		42,077 Paychex, Inc. ....	1,173,948
16,455 Southwest Airlines Co. ....	228,725	Computer Services – 0.8%	
Applications Software – 3.3%		67,030 Ceridian Corp. *	966,573
75,185 Microsoft Corp. *	3,887,064	Computers – 1.2%	
Automotive – Cars and Light Trucks – 0.5%		45,720 Apple Computer, Inc. *	655,168
18,200 BMW A.G.**	552,893	10,180 IBM Corp. ....	788,950
Beverages – Non-Alcoholic – 1.4%			1,444,118
38,171 PepsiCo, Inc. ....	1,611,580	Computers – Peripheral Equipment – 0.3%	
Brewery – 1.9%		6,555 Lexmark International Group, Inc. – Class A	396,577
47,123 Anheuser-Busch Companies, Inc. ....	2,280,753	Consulting Services – 0.5%	
Broadcast Services and Programming – 3.9%		33,030 Accenture, Ltd. – Class A (New York Shares)	594,210
41,795 Clear Channel Communications, Inc.*	1,558,536	Cosmetics and Toiletries – 2.9%	
343,013 Liberty Media Corp. – Class A *	3,066,536	16,045 Colgate-Palmolive Co. ....	841,239
	4,625,072	11,285 International Flavors & Fragrances, Inc. ....	396,104
Cable Television – 3.8%		25,120 Procter & Gamble Co. ....	2,158,813
110,338 Comcast Corp. – Special Class A *	2,492,535		3,396,156
67,831 Cox Communications, Inc. – Class A *	1,926,400	Data Processing and Management – 0.8%	
	4,418,935	22,770 Automatic Data Processing, Inc. ....	893,723
		Diversified Financial Services – 4.2%	
		141,415 Citigroup, Inc. ....	4,976,394

See Notes to Schedules of Investments and Financial Statements.

# Janus Aspen Growth and Income Portfolio

## Schedule of Investments

Shares or Principal Amount	Market Value	Shares or Principal Amount	Market Value
Diversified Operations – 4.2%		Oil Companies – Integrated – 6.7%	
14,260 3M Co. . . . .	\$1,758,258	33,459 ConocoPhillips . . . . .	\$ 1,619,081
95,468 General Electric Co. . . . .	2,324,646	64,024 EnCana Corp. (New York Shares) . . . . .	1,991,146
37,420 Honeywell International, Inc. . . . .	898,080	122,885 Exxon Mobil Corp. . . . .	4,293,602
	4,980,984		7,903,829
Entertainment Software – 0.6%		Pipelines – 0.6%	
13,375 Electronic Arts, Inc. * . . . .	665,674	16,496 Kinder Morgan, Inc. . . . .	697,286
Finance – Commercial – 1.2%		Printing – Commercial – 0.7%	
71,135 CIT Group, Inc. . . . .	1,394,246	28,711 Valassis Communications, Inc. * . . . .	844,965
Finance – Investment Bankers/Brokers – 1.8%		Property and Casualty Insurance – 0.3%	
31,671 Charles Schwab Corp. . . . .	343,630	23,380 Travelers Property Casualty Corp. – Class B . . . . .	342,517
18,905 Goldman Sachs Group, Inc. . . . .	1,287,430	Reinsurance – 2.1%	
22,340 J.P. Morgan Chase & Co. . . . .	536,160	1,027 Berkshire Hathaway, Inc. – Class B * . . . .	2,488,421
	2,167,220	Retail – Discount – 0.5%	
Finance – Mortgage Loan Banker – 2.2%		18,755 Target Corp. . . . .	562,650
40,240 Fannie Mae . . . . .	2,588,639	Semiconductor Components/Integrated Circuits – 2.1%	
Financial Guarantee Insurance – 0.8%		22,090 Linear Technology Corp. . . . .	568,155
23,710 MGIC Investment Corp. . . . .	979,223	55,834 Maxim Integrated Products, Inc. * . . . .	1,844,755
Hotels and Motels – 1.4%			2,412,910
42,812 Fairmont Hotels & Resorts, Inc. (New York Shares) . . . . .	1,008,223	Super-Regional Banks – 3.6%	
28,350 Starwood Hotels & Resorts Worldwide, Inc. . . . .	673,029	25,245 Bank of America Corp. . . . .	1,756,295
	1,681,252	115,395 U.S. Bancorp . . . . .	2,448,682
Insurance Brokers – 2.8%			4,204,977
69,888 Marsh & McLennan Companies, Inc. . . . .	3,229,524	Telecommunication Equipment – 0.7%	
Life and Health Insurance – 1.8%		56,735 Nokia Oyj (ADR)** . . . . .	879,392
32,040 AFLAC, Inc. . . . .	965,045	Telephone – Integrated – 0.5%	
39,159 John Hancock Financial Services, Inc. . . . .	1,092,536	20,560 SBC Communications, Inc. . . . .	557,382
	2,057,581	Tools – Hand Held – 1.1%	
Medical – Drugs – 5.0%		36,755 Stanley Works Co. . . . .	1,270,988
32,240 Abbott Laboratories . . . . .	1,289,600	Toys – 1.4%	
13,810 Merck & Company, Inc. . . . .	781,784	84,530 Mattel, Inc. . . . .	1,618,750
79,500 Pfizer, Inc. . . . .	2,430,315	Transportation – Railroad – 0.5%	
36,145 Wyeth . . . . .	1,351,823	15,240 Canadian National Railway Co. (New York Shares)** . . . . .	633,374
	5,853,522	Transportation – Services – 0.2%	
Medical – HMO – 0.5%		7,035 C.H. Robinson Worldwide, Inc. . . . .	219,492
7,225 UnitedHealth Group, Inc. . . . .	603,287	Travel Services – 1.2%	
Medical – Hospitals – 0.2%		60,090 USA Interactive * . . . . .	1,373,657
10,760 Tenet Healthcare Corp. * . . . .	176,464	Total Common Stock (cost \$116,343,719) . . . . .	100,033,389
Medical Instruments – 2.0%		Corporate Bonds – 3.6%	
50,354 Medtronic, Inc. . . . .	2,296,142	Advertising Sales – 0.1%	
Motorcycle and Motor Scooter Manufacturing – 0.6%		\$160,000 Lamar Advertising Co., 5.25% convertible notes, due 9/15/06 . . . . .	161,200
15,788 Harley-Davidson, Inc. . . . .	729,406	Cable Television – 0.4%	
Multi-Line Insurance – 1.9%		420,000 Cox Communications, Inc., 7.125% notes, due 10/1/12 . . . . .	466,508
38,505 American International Group, Inc. . . . .	2,227,514	Cellular Telecommunications – 0.1%	
Multimedia – 5.1%		58,000 VoiceStream Wireless Corp., 10.375% senior notes, due 11/15/09 . . . . .	60,900
16,625 AOL Time Warner, Inc. . . . .	217,787	Non-Hazardous Waste Disposal – 0.4%	
22,065 Gannett Company, Inc. . . . .	1,584,267	Waste Management, Inc.:	
80,359 Viacom, Inc. – Class B * . . . .	3,275,433	375,000 6.375%, notes, due 12/1/03 . . . . .	382,166
54,845 Walt Disney Co. . . . .	894,522	100,000 7.00%, notes, due 5/15/05 . . . . .	105,199
	5,972,009		487,365
Non-Hazardous Waste Disposal – 0.4%			
20,590 Waste Management, Inc. . . . .	471,923		

See Notes to Schedules of Investments and Financial Statements.

# Janus Aspen Growth and Income Portfolio

## Schedule of Investments

Shares or Principal Amount	Market Value
Oil Companies – Exploration and Production – 0.2%	
\$ 363,000 Devon Energy Corp., 0% convertible debentures, due 6/27/20	\$ 190,121
Resorts and Theme Parks – 0.2%	
40,000 Six Flags, Inc.: 9.50%, senior notes, due 2/1/09	38,600
160,000 8.875%, senior notes, due 2/1/10	150,400
	189,000
Retail – Discount – 1.4%	
1,655,000 Wal-Mart Stores, Inc., 4.375% notes, due 8/1/03	1,682,910
Telephone – Integrated – 0.2%	
185,000 CenturyTel, Inc., 8.375% notes, due 10/15/10	220,742
Toys – 0.3%	
140,000 Mattel, Inc.: 6.00%, notes, due 7/15/03	140,940
250,000 6.125%, notes, due 7/15/05	256,000
	396,940
Transportation – Railroad – 0.3%	
365,000 Wisconsin Central Transportation Corp. 6.625%, notes, due 4/15/08	411,615
Total Corporate Bonds (cost \$4,078,629)	4,267,301
Preferred Stock – 3.6%	
Automotive – Cars and Light Trucks – 3.0%	
62,015 General Motors Corp. – Series B convertible, 5.25%	1,441,849
4,971 Porsche A.G.**	2,065,664
	3,507,513
Electric – Integrated – 0.6%	
33,815 Centerpoint Energy, Inc., convertible, 2.00% (AOL Time Warner, Inc.)	748,157
Total Preferred Stock (cost \$5,365,047)	4,255,670
U.S. Government Obligations – 7.0%	
U.S. Treasury Notes:	
\$1,330,000 3.00%, due 1/31/04	1,354,730
4,290,000 2.875%, due 6/30/04	4,384,848
1,810,000 2.25%, due 7/31/04	1,833,756
545,000 3.50%, due 11/15/06	567,141
Total U.S. Government Obligations (cost \$8,086,960)	8,140,475
Repurchase Agreement – 0.2%	
200,000 ABN AMRO Bank N.V., 1.26% dated 12/31/02, maturing 1/2/03 to be repurchased at \$200,014 collateralized by \$189,598 in U.S. Government Agencies 5.875%-9.50%, 3/21/11-4/1/32 \$85,229 in U.S. Treasury Bills 0%, 3/20/03-3/27/03; with respective values of \$119,006 and \$84,994 (cost \$200,000)	200,000
Total Investments (total cost \$134,074,355) – 99.6%	116,896,835
Cash, Receivables and Other Assets, net of Liabilities – 0.4%	460,875
Net Assets – 100%	\$117,357,710

## Summary of Investments by Country, December 31, 2002

Country	% of Investment Securities	Market Value
Bermuda	0.5%	\$ 594,210
Canada	3.1%	3,632,743
Finland	0.8%	879,392
Germany	2.2%	2,618,557
United States††	93.4%	109,171,933
Total	100.0%	\$116,896,835

††Includes Short-Term Securities (93.2% excluding Short-Term Securities)

## Forward Currency Contracts, Open at December 31, 2002

Currency Sold and Settlement Date	Currency Units Sold	Currency Value in \$ U.S.	Unrealized Gain/(Loss)
Euro 2/21/03	2,500,000	\$2,617,549	\$(107,299)
Total		\$2,617,549	\$(107,299)

See Notes to Schedules of Investments and Financial Statements.

# Statement of Assets and Liabilities

Janus Aspen  
Growth and  
Income  
Portfolio

As of December 31, 2002  
(all numbers in thousands except net asset value per share)

Assets:	
Investments at cost	\$134,074
Investments at value	\$116,897
Cash	48
Receivables:	
Investments sold	958
Portfolio shares sold	74
Dividends	111
Interest	109
Other assets	1
<b>Total Assets</b>	<b>118,198</b>
Liabilities:	
Payables:	
Investments purchased	462
Portfolio shares repurchased	162
Advisory fees	67
Accrued expenses	42
Forward currency contracts	107
<b>Total Liabilities</b>	<b>840</b>
<b>Net Assets</b>	<b>\$117,358</b>
Net Assets – Institutional Shares	\$ 55,271
Shares Outstanding, \$0.001 Par Value (unlimited shares authorized)	4,782
Net Asset Value Per Share	\$ 11.56
Net Assets – Service Shares	\$ 62,087
Shares Outstanding, \$0.001 Par Value (unlimited shares authorized)	5,370
Net Asset Value Per Share	\$ 11.56
Net Assets – Service II Shares*	N/A
Shares Outstanding, \$0.001 Par Value (unlimited shares authorized)*	N/A
Net Asset Value Per Share	N/A

\*Net Assets – Service II Shares and Shares Outstanding are not in thousands.

See Notes to Financial Statements.



# Statement of Operations

<i>For the fiscal year ended December 31, 2002 (all numbers in thousands)</i>	<i>Janus Aspen Growth and Income Portfolio</i>
Investment Income:	
Interest	\$ 643
Dividends	1,742
Foreign tax withheld	(8)
<b>Total Investment Income</b>	<b>2,377</b>
Expenses:	
Advisory fees	979
Transfer agent expenses	3
Registration fees	59
System fees	17
Custodian fees	53
Audit fees	12
Distribution fees – Service Shares	195
Distribution fees – Service II Shares	N/A
Other expenses	22
<b>Total Expenses</b>	<b>1,340</b>
Expense and Fee Offsets	(2)
Net Expenses	1,338
Excess Expense Reimbursement	—
Net Expenses After Reimbursement	1,338
<b>Net Investment Income/(Loss)</b>	<b>1,039</b>
Net Realized and Unrealized Gain/(Loss) on Investments:	
Net realized gain/(loss) from securities transactions	(23,479)
Net realized gain/(loss) from foreign currency transactions	(4)
Change in net unrealized appreciation/(depreciation) of investments and foreign currency translations	(15,427)
<b>Net Realized and Unrealized Gain/(Loss) on Investments and foreign currency translations</b>	<b>(38,910)</b>
<b>Net Increase/(Decrease) in Net Assets Resulting from Operations</b>	<b>\$(37,871)</b>

See Notes to Financial Statements.

# Statement of Changes in Net Assets

For the fiscal year ended December 31 (all numbers in thousands)	Janus Aspen Growth and Income Portfolio	
	2002	2001
Operations:		
Net investment income/(loss)	\$ 1,039	\$ 1,926
Net realized gain/(loss) from investment transactions and foreign currency transactions	(23,483)	(28,735)
Change in unrealized net appreciation/(depreciation) of investments and foreign currency translations	(15,427)	(312)
<b>Net Increase/(Decrease) in Net Assets Resulting from Operations</b>	<b>(37,871)</b>	<b>(27,121)</b>
Dividends and Distributions to Shareholders:		
Net investment income*	(1,010)	(2,121)
Net realized gain from investment transactions*	—	—
Tax Return of Capital*	—	—
<b>Net Decrease from Dividends and Distributions</b>	<b>(1,010)</b>	<b>(2,121)</b>
Capital Share Transactions:		
Shares sold		
Institutional Shares	4,594	6,926
Service Shares	20,287	56,233
Service II Shares	N/A	N/A
Reinvested dividends and distributions		
Institutional Shares	575	1,432
Service Shares	435	689
Service II Shares	N/A	N/A
Shares repurchased		
Institutional Shares	(24,034)	(21,655)
Service Shares	(23,431)	(14,594)
Service II Shares	N/A	N/A
<b>Net Increase/(Decrease) from Capital Share Transactions</b>	<b>(21,574)</b>	<b>29,031</b>
<b>Net Increase/(Decrease) in Net Assets</b>	<b>(60,455)</b>	<b>(211)</b>
Net Assets:		
Beginning of period	177,813	178,024
End of period	\$ 117,358	\$ 177,813
Net Assets Consist of:		
Capital (par value and paid-in surplus)*	\$ 191,064	\$ 212,637
Undistributed net investment income/(loss)*	114	84
Undistributed net realized gain/(loss) from investments*	(56,537)	(33,052)
Unrealized appreciation/(depreciation) of investments and foreign currency translations	(17,283)	(1,856)
<b>Total Net Assets</b>	<b>\$ 117,358</b>	<b>\$ 177,813</b>
Transactions in Portfolio Shares – Institutional Shares		
Shares sold	350	438
Reinvested dividends and distributions	47	92
<b>Total</b>	<b>397</b>	<b>530</b>
Shares Repurchased	(1,845)	(1,411)
<b>Net Increase/(Decrease) in Portfolio Shares</b>	<b>(1,448)</b>	<b>(881)</b>
Shares Outstanding, Beginning of Period	6,230	7,111
<b>Shares Outstanding, End of Period</b>	<b>4,782</b>	<b>6,230</b>
Transactions in Portfolio Shares – Service Shares <sup>(1)</sup>		
Shares sold	1,468,423	3,516,345
Reinvested dividends and distributions	35,741	44,389
<b>Total</b>	<b>1,504,164</b>	<b>3,560,734</b>
Shares Repurchased	(1,859,894)	(958,747)
<b>Net Increase/(Decrease) in Portfolio Shares</b>	<b>(355,730)</b>	<b>2,601,987</b>
Shares Outstanding, Beginning of Period	5,726,140	3,124,153
<b>Shares Outstanding, End of Period</b>	<b>5,370,410</b>	<b>5,726,140</b>
Transactions in Portfolio Shares – Service II Shares <sup>(1)</sup>		
Shares sold	N/A	N/A
Reinvested dividends and distributions	N/A	N/A
<b>Total</b>	<b>N/A</b>	<b>N/A</b>
Shares Repurchased	N/A	N/A
<b>Net Increase/(Decrease) in Portfolio Shares</b>	<b>N/A</b>	<b>N/A</b>
Shares Outstanding, Beginning of Period	N/A	N/A
<b>Shares Outstanding, End of Period</b>	<b>N/A</b>	<b>N/A</b>
Purchases and Sales of Investment Securities: (excluding short-term securities)		
Purchases of securities	\$ 63,146	\$ 115,281
Proceeds from sales of securities	69,925	77,413
Purchases of long-term U.S. government obligations	12,443	5,900
Proceeds from sales of long-term U.S. government obligations	12,545	4,006

\*See Note 3 in Notes to Financial Statements.

(1) Transactions in Portfolio Shares – Service and Service II Shares numbers are not in thousands.

See Notes to Financial Statements.

# Financial Highlights – Institutional Shares

For a share outstanding during the fiscal year or period ended December 31	Janus Aspen Growth and Income Portfolio				
	2002	2001	2000	1999	1998 <sup>(2)</sup>
Net Asset Value, Beginning of Period	\$14.87	\$17.41	\$20.77	\$11.96	\$10.00
Income from Investment Operations:					
Net investment income/(loss)	.12	.20	.19	.04	.02
Net gain/(loss) on securities (both realized and unrealized)	(3.32)	(2.52)	(3.08)	8.81	1.96
Total from Investment Operations	(3.20)	(2.32)	(2.89)	8.85	1.98
Less Distributions:					
Dividends (from net investment income)*	(.11)	(.22)	(.16)	(.04)	(.02)
Distributions (from capital gains)*	—	—	(.31)	—	—
Total Distributions	(.11)	(.22)	(.47)	(.04)	(.02)
Net Asset Value, End of Period	\$11.56	\$14.87	\$17.41	\$20.77	\$11.96
Total Return**	(21.54)%	(13.37)%	(14.10)%	74.04%	19.80%
Net Assets, End of Period (in thousands)	\$55,271	\$ 92,659	\$123,812	\$84,480	\$6,413
Average Net Assets for the Period (in thousands)	\$72,550	\$105,243	\$124,282	\$28,838	\$2,883
Ratio of Gross Expenses to Average Net Assets*** <sup>(1)</sup>	0.76%	0.70%	0.78%	1.06%	1.25%
Ratio of Net Expenses to Average Net Assets*** <sup>(1)</sup>	0.76%	0.70%	0.78%	1.05%	1.25%
Ratio of Net Investment Income to Average Net Assets***	0.81%	1.19%	1.07%	0.56%	0.66%
Portfolio Turnover Rate***	54%	52%	37%	59%	62%

\*See Note 3 in Notes to Financial Statements.

\*\*Total return not annualized for periods of less than one full year.

\*\*\*Annualized for periods of less than one full year.

(1) See Note 5 in Notes to Financial Statements.

(2) Period May 1, 1998 (inception) to December 31, 1998.

See Notes to Financial Statements.

# Financial Highlights – Service Shares

<i>For a share outstanding during the fiscal year ended December 31</i>	<i>Janus Aspen Growth and Income Portfolio</i>		
	<i>2002</i>	<i>2001</i>	<i>2000</i>
Net Asset Value, Beginning of Period	\$14.87	\$17.35	\$20.63
Income from Investment Operations:			
Net investment income/(loss)	.08	.12	.07
Net gain/(loss) on securities (both realized and unrealized)	(3.31)	(2.47)	(2.99)
Total from Investment Operations	(3.23)	(2.35)	(2.92)
Less Distributions:			
Dividends (from net investment income)*	(.08)	(.13)	(.05)
Distributions (from capital gains)*	—	—	(.31)
Tax return of capital*	—	—	—
Total Distributions	(.08)	(.13)	(.36)
Net Asset Value, End of Period	\$11.56	\$14.87	\$17.35
Total Return	(21.77)%	(13.58)%	(14.31)%
Net Assets, End of Period (in thousands)	\$62,087	\$85,154	\$54,212
Average Net Assets for the Period (in thousands)	\$78,089	\$73,705	\$12,868
Ratio of Gross Expenses to Average Net Assets <sup>(1)</sup>	1.01%	0.95%	1.11%
Ratio of Net Expenses to Average Net Assets <sup>(1)</sup>	1.01%	0.95%	1.10%
Ratio of Net Investment Income/(Loss) to Average Net Assets	0.57%	0.91%	1.20%
Portfolio Turnover Rate	54%	52%	37%

\*See Note 3 in Notes to Financial Statements.

(1) See Note 5 in Notes to Financial Statements.

# Notes to Schedules of Investments

ADR	American Depository Receipt
GDR	Global Depository Receipt
New York Shares	Securities of foreign companies trading on the New York Stock Exchange
RNC	Represents non-convertible savings shares

\*Non-income-producing security

\*\*A portion of this security has been segregated by the custodian to cover margin or segregation requirements on open futures contracts, forward currency contracts and/or swap spread lock agreements.

† Securities are exempt from the registration requirements of the Securities Act of 1933 and/or Section 4(2) of the Securities Act and may be deemed to be restricted for resale.

ΩRate is subject to change. Rate shown reflects current rate.

ΔSecurity is a defaulted security in Janus Aspen Global Technology Portfolio with accrued interest in the amount of \$40,000, that was written-off December 10, 2001.

βSecurity is a defaulted security in Janus Aspen Flexible Income Portfolio with accrued interest in the amount of \$39,840, that was written-off December 10, 2001.

π Security is a U.S. Treasury Inflation-Protected Security (TIPS).

Variable Rate Notes. The interest rate, which is based on specific, or an index of, market interest rates, is subject to change. Rates in the security description are as of December 31, 2002.

Money market funds may hold securities with stated maturities of greater than 397 days when those securities have features that allow a fund to “put” back the security to the issuer or to a third party within 397 days of acquisition. The maturity dates shown in the security descriptions are the stated maturity dates.

Repurchase Agreements held by a Portfolio are fully collateralized, and such collateral is in the possession of the Portfolio’s custodian or subcustodian. The collateral is evaluated daily to ensure its market value equals or exceeds the current market value of the repurchase agreements including accrued interest. In the event of default on the obligation to repurchase, the Portfolio has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. In the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral or proceeds may be subject to legal proceedings.

# Notes to Financial Statements

The following section describes the organization and significant accounting policies of the Portfolios and provides more detailed information about the schedules and tables that appear throughout this report. In addition, the Notes explain how the Portfolios operate and the methods used in preparing and presenting this report.

## I. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Janus Aspen Series (the "Trust") was organized as a Delaware Trust on May 20, 1993, and is registered under the Investment Company Act of 1940 (the "1940 Act") as a no-load, open-end management investment company. The Trust offers fourteen Portfolios or series of shares with differing investment objectives and policies. Twelve Portfolios invest primarily in equity securities: Janus Aspen Growth Portfolio, Janus Aspen Aggressive Growth Portfolio, Janus Aspen Capital Appreciation Portfolio, Janus Aspen Core Equity Portfolio, Janus Aspen Balanced Portfolio, Janus Aspen Growth and Income Portfolio, Janus Aspen Strategic Value Portfolio, Janus Aspen International Growth Portfolio, Janus Aspen Worldwide Growth Portfolio, Janus Aspen International Value Portfolio, Janus Aspen Global Life Sciences Portfolio and Janus Aspen Global Technology Portfolio. One Portfolio invests primarily in income-producing securities: Janus Aspen Flexible Income Portfolio. Janus Aspen Money Market Portfolio invests in short-term money market securities. Each Portfolio is diversified as defined in the 1940 Act, with the exception of the Janus Aspen Aggressive Growth Portfolio, Janus Aspen Capital Appreciation Portfolio, Janus Aspen Strategic Value Portfolio, Janus Aspen International Value Portfolio, Janus Aspen Global Life Sciences Portfolio and Janus Aspen Global Technology Portfolio, which are nondiversified.

Institutional Shares of the Trust are issued and redeemed only in connection with investment in and payments under variable annuity contracts and variable life insurance contracts (collectively "variable insurance contracts"), as well as certain qualified retirement plans.

Service Shares of the Trust are also issued and redeemed only in connection with investment in and payments under variable insurance contracts, as well as certain qualified retirement plans.

Effective December 31, 2001, the Trust issued a new class of shares, the Service II Shares in the Janus Aspen International Growth, Janus Aspen Worldwide Growth, and Janus Aspen Global Technology Portfolios. Janus Capital Management LLC ("Janus Capital") invested \$10,000 of initial seed capital in each Portfolio of the Service II Shares.

Janus Aspen High-Yield Portfolio was liquidated on October 26, 2001. Regulatory approvals were obtained to substitute shares of the Janus Aspen Flexible Income Portfolio for shares of the Janus Aspen High-Yield Portfolio. 60,319 shares in the amount of \$731,670 were exchanged into Janus Aspen Flexible Income Portfolio as a result of the substitution.

Janus Capital invested initial seed capital in the amounts of \$500,000, \$500,000, \$10,000 and \$10,000, respectively, for the following Portfolios on December 31, 2002: Janus Aspen Mid Cap Value Portfolio, Janus Aspen Small Cap Value Portfolio, Janus Aspen Risk-Managed Large Cap Growth Portfolio and Janus Aspen Risk-Managed Large Cap Core Portfolio. Janus Aspen Small Cap Value Portfolio began investment operations on December 31, 2002. These Portfolios each have one class of shares, Service Shares.

The following accounting policies have been consistently followed by the Trust and are in conformity with accounting principles generally accepted in the United States of America in the investment company industry.

As a result of changes in the accounting standards applicable to the Portfolios' financial statements, the Portfolios are no longer required to show certain distribution information as a separate line item. The Portfolios' Financial Highlights included in this report reflect this change.

### Investment Valuation

Securities are valued at the closing price for securities traded on a principal securities exchange (U.S. or foreign) and on the NASDAQ National Market. Securities traded on over-the-counter markets and listed securities for which no sales are reported are valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers making a market for such securities or by a pricing service approved by the Trustees. Short-term investments maturing within 60 days and all money market securities in the Money Market Portfolio are valued at amortized cost, which approximates market value. Foreign securities are converted to U.S. dollars using exchange rates at the close of the New York Stock Exchange. When market quotations are not readily available, or events or circumstances that may affect the value of portfolio securities are identified between the closing of their principle markets and the time the net asset value (NAV) is determined, securities are valued at fair value as determined in good faith under procedures established by and under the supervision of the Portfolios' Trustees.

### Investment Transactions and Investment Income

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Trust is informed of the dividend if such information is obtained subsequent to the ex-dividend date. Interest income is recorded on the accrual basis and includes amortization of discounts and premiums. 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 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.

# Notes to Financial Statements (continued)

## **Forward Currency Transactions and Futures Contracts**

The Portfolios enter into forward currency contracts in order to reduce their exposure to changes in foreign currency exchange rates on their foreign portfolio holdings and to lock in the U.S. dollar cost of firm purchase and sales commitments for securities denominated in or exposed to foreign currencies. A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated rate. The gain or loss arising from the difference between the U.S. dollar cost of the original contract and the value of the foreign currency in U.S. dollars upon closing of such contract is included in net realized gain or loss from foreign currency transactions.

Forward currency contracts held by the Portfolios are fully collateralized by other securities, which are denoted in the accompanying Schedule of Investments. Such collateral is in the possession of the Portfolio's custodian. The collateral is evaluated daily to ensure its market value equals or exceeds the current market value of the corresponding forward currency contracts.

The Portfolios do 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 market prices of securities held at the date of the financial statements. Net unrealized appreciation or depreciation on investments and foreign currency translation arise from changes in the value of assets and liabilities, including investments in securities at the date of the financial statements, resulting from changes in the exchange rates and changes in market prices of securities held.

Currency gain and loss are also calculated on payables and receivables that are denominated in foreign currencies. The payables and receivables are generally related to security transactions and income.

The Portfolios may enter into futures contracts and options on securities, financial indices and foreign currencies, forward contracts and interest-rate swaps and swap-related products. The Portfolios intend to use such derivative instruments primarily to hedge or protect from adverse movements in securities prices, currency rates or interest rates. The use of futures contracts and options may involve risks such as the possibility of illiquid markets or imperfect correlation between the value of the contracts and the underlying securities, or that the counterparty will fail to perform its obligations.

Futures contracts are marked to market daily, and the daily variation margin is recorded as an unrealized gain or loss. When a contract is closed, a realized gain or loss is recorded equal to the difference between the opening and closing value of the contract. Generally, open forward and futures contracts are marked to market (i.e., treated as realized and subject to distribution) for federal income tax purposes at fiscal year-end.

Foreign-denominated assets and forward currency contracts may involve more risks than domestic transactions, including currency

risk, political and economic risk, regulatory risk and market risk. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

## **Initial Public Offerings**

The Portfolios may invest in initial public offerings (IPOs). IPOs and other investment techniques may have a magnified performance impact on a portfolio with a small asset base. The Portfolios may not experience similar performance as their assets grow.

## **Additional Investment Risk**

A portion of the Janus Aspen Flexible Income Portfolio may be invested in lower-rated debt securities that have a higher risk of default or loss of value because of changes in the economy, or political environment, or adverse developments specific to the issuer.

## **Restricted Security Transactions**

Restricted securities held by a Portfolio may not be sold except in exempt transactions or in a public offering registered under the Securities Act of 1933. The risk of investing in such securities is generally greater than the risk of investing in the securities of widely held, publicly traded companies. Lack of a secondary market and resale restrictions may result in the inability of a Portfolio to sell a security at a fair price and may substantially delay the sale of the security which each portfolio seeks to sell. In addition, these securities may exhibit greater price volatility than securities for which secondary markets exist.

## **Dividend Distributions**

Each Portfolio, except the Money Market Portfolio, makes at least semiannual distributions of substantially all of its investment income and at least an annual distribution of its net realized capital gains, if any. Dividends are declared daily and distributed monthly for the Janus Aspen Money Market Portfolio. The majority of dividends and capital gains distributions from a Portfolio will be automatically reinvested into additional shares of that Portfolio.

## **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.

## **Federal Income Taxes**

No provision for income taxes is included in the accompanying financial statements as the Portfolios intend to distribute to shareholders all taxable investment income and realized gains and otherwise comply with Subchapter M of the Internal Revenue Code applicable to regulated investment companies.

## 2. INVESTMENT ADVISORY AGREEMENTS AND OTHER TRANSACTIONS WITH AFFILIATES

Each equity Portfolio is subject to advisory fees payable to Janus Capital based upon an annual rate of .65% of average net assets. The Janus Aspen Flexible Income Portfolio is subject to advisory fees payable to Janus Capital based upon annual rates of .65% of the first \$300 million of average net assets plus .55% of average net assets in excess of \$300 million. The Janus Aspen Money Market Portfolio's advisory fee rate is .25% of average net assets.

Janus Capital has agreed to reduce its fee to the extent normal operating expenses exceed 1% of the average net assets of the Janus Aspen Flexible Income Portfolio and .50% of the average net assets of the Janus Aspen Money Market Portfolio for a fiscal year. Janus Capital has also agreed to reduce its fee to the extent that normal operating expenses exceed 1.25% of the average net assets of the Janus Aspen Core Equity, Janus Aspen Strategic Value, Janus Aspen International Value, Janus Aspen Global Life Sciences and Janus Aspen Global Technology Portfolios.

Janus Capital has agreed to continue these fee waivers and reductions until at least the next annual renewal of the advisory contracts. The distribution fee applicable to the Service and Service II Shares is not included in these expense limits.

During the year ended December 31, 2002, Janus Capital reimbursed Janus Aspen Flexible Income Portfolio for certain trading errors, the amounts of which were insignificant.

Janus Services LLC ("Janus Services"), a wholly owned subsidiary of Janus Capital, receives certain out-of-pocket expenses for transfer agent services.

Certain officers and trustees of the Portfolios may also be officers and/or directors of Janus Capital; however, such officers and trustees receive no compensation from the Portfolios.

Janus Distributors LLC, a wholly owned subsidiary of Janus Capital, is a distributor of the Portfolios. The Service and Service II Shares have each adopted a Distribution and Shareholder Servicing Plan (the "Plans") pursuant to Rule 12b-1 under The 1940 Act. The Plans authorize payments by the Portfolios in connection with the distribution of the Service and Service II Shares at an annual rate, as determined from time to time by the Board of Trustees, of up to .25% of the Service and Service II Shares' average daily net assets.

DST Systems, Inc. (DST), an affiliate of Janus Capital through a degree of common ownership, provides a shareholder accounting system to the Portfolios. DST Securities, Inc., a wholly owned subsidiary of DST, is designated as an introductory broker on certain portfolio transactions. Brokerage commissions paid to DST Securities, Inc. serve to reduce transfer agent fees and expenses. Brokerage commissions paid, fees reduced and the net fees paid to DST for the period ended December 31, 2002, are noted below.

<i>Portfolio</i>	<i>DST Securities, Inc. Commissions Paid</i>	<i>Portfolio Expense Reduction</i>	<i>DST Systems Costs</i>
Janus Aspen Growth and Income Portfolio	\$1,708	\$1,281	\$2,665



# Notes to Financial Statements (continued)

## 3. FEDERAL INCOME TAX

The tax components of capital shown in the table below represent: (1) distribution requirements the Portfolios must satisfy under the income tax regulations, (2) losses or deductions the Portfolios may be able to offset against income and gains realized in future years, and (3) unrealized appreciation or depreciation of investments for federal income tax purposes.

Accumulated capital losses noted below represent net capital loss carryovers as of December 31, 2002 that may be available to offset future realized capital gains and thereby reduce future taxable gain distributions. These carryovers expire between December 31, 2008 and December 31, 2010.

In 2002, the Portfolios noted below incurred "Post-October" losses during the period from November 1 through December 31, 2002. These losses will be deferred for tax purposes and recognized in 2003.

Other book to tax differences in 2002 primarily consist of foreign currency contract adjustments. The Portfolios have elected to treat gains and losses on forward foreign currency contracts as capital gains and losses. 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.

	<i>Undistributed Ordinary Income</i>	<i>Undistributed Long-Term Gains</i>	<i>Accumulated Capital Losses</i>	<i>Post- October Deferral</i>	<i>Net Tax AP/DP on Foreign Currency and Futures</i>	<i>Net Tax AP/DP on Investments</i>
Janus Aspen Growth and Income Portfolio	\$113,553	—	\$(54,356,446)	\$(582,786)	\$1,577	\$(18,882,004)

AP/DP Appreciation/(Depreciation)

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investments for federal income tax purposes as of December 31, 2002 are noted below. Unrealized appreciation and unrealized depreciation

in the table below exclude appreciation/depreciation on foreign currency translations. The primary difference between book and tax appreciation or depreciation of investments is wash sale loss deferrals.

<i>Portfolio</i>	<i>Federal Tax Cost</i>	<i>Unrealized Appreciation</i>	<i>Unrealized (Depreciation)</i>
Janus Aspen Growth and Income Portfolio	\$135,778,840	\$4,657,824	\$(23,539,829)

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. Certain permanent differences such as tax returns of capital and net investment losses noted below have been reclassified to paid-in capital.

<i>Portfolio</i>	<i>Distributions</i>			<i>Net Investment Loss</i>
	<i>From Ordinary Income</i>	<i>From Long-Term Capital Gains</i>	<i>Tax Return of Capital</i>	
Janus Aspen Growth and Income Portfolio	\$1,010,388	—	—	—

#### 4. EXPENSES

The Portfolios' expenses may be reduced through expense-reduction arrangements. Those arrangements include the use of broker commissions paid to DST Securities, Inc. and uninvested cash balances earning interest with the Portfolios' custodian. The Statements of Operations reflect the total expenses before any offset, the amount of the offset and the net expenses. The expense ratios listed in the Financial Highlights reflect expenses prior to any expense offset (gross expense ratio) and after expense offsets (net expense ratio). Both expense ratios reflect expenses after waivers.

Expenses 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.

Janus Aspen Service and Service II Shares each pay a distribution fee of up to .25% of average net assets.

#### 5. EXPENSE RATIOS

Listed below are the gross expense ratios for the various Portfolios that would be in effect, absent the waiver of certain fees, and offsets.

Portfolio	Institutional Shares					Service Shares			Service II Shares
	2002	2001	2000	1999	1998	2002	2001	2000	2002
Janus Aspen Growth and Income Portfolio	0.76%	0.70%	0.78%	1.15%	3.06% <sup>(1)</sup>	1.01%	0.95%	1.11%	N/A

(1) Period May 1, 1998 (inception) to December 31, 1998.

# Report of Independent Accountants

To the Trustees and Shareholders  
of Janus Aspen Series

In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Janus Aspen Growth Portfolio, Janus Aspen Aggressive Growth Portfolio, Janus Aspen Capital Appreciation Portfolio, Janus Aspen Core Equity Portfolio, Janus Aspen Balanced Portfolio, Janus Aspen Growth and Income Portfolio, Janus Aspen Strategic Value Portfolio, Janus Aspen International Growth Portfolio, Janus Aspen Worldwide Growth Portfolio, Janus Aspen International Value Portfolio (formerly, Janus Aspen Global Value Portfolio), Janus Aspen Global Life Sciences Portfolio, Janus Aspen Global Technology Portfolio, Janus Aspen Flexible Income Portfolio and Janus Aspen Money Market Portfolio (fourteen of the portfolios of Janus Aspen Series, hereafter referred to as the "Portfolios") at December 31, 2002, the results of each of their operations, the changes in each of their net assets and the financial highlights for each of the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolios' management; our responsibility is to express an opinion on these financial statements

based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2002, by correspondence with the custodians and brokers and the application of alternative auditing procedures where securities purchased had not been received, provide a reasonable basis for the opinion expressed above.



PricewaterhouseCoopers LLP  
Denver, Colorado  
February 6, 2003

# Explanations of Charts, Tables and Financial Statements

(unaudited)

## 1. PERFORMANCE OVERVIEWS

Performance overview graphs on the previous pages compare the performance of a \$10,000 investment in each Portfolio (from inception) with one or more widely used market indices through December 31, 2002.

When comparing the performance of a Portfolio with an index, keep in mind that market indices do not include brokerage commissions that would be incurred if you purchased the individual securities in the index. They also do not include taxes payable on dividends and interest or operating expenses incurred if you maintained a Portfolio invested in the index.

Average annual total returns are quoted for each class of the Portfolio. 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.

## 2. SCHEDULES OF INVESTMENTS

Following the performance overview section is each Portfolio's Schedule of Investments. This schedule reports the industry concentrations and types of securities held in each 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.).

The market value of each security is quoted as of the last day of the reporting period. The values of securities denominated in foreign currencies are converted into U.S. dollars.

Portfolios that invest in foreign securities also provide a summary of investments by country. This summary reports the Portfolio's exposure to different countries by providing the percentage of securities invested in each country.

### 2A. FORWARD CURRENCY CONTRACTS

A table listing forward currency contracts follows each Portfolio's Schedule of Investments (if applicable). Forward currency contracts are agreements to deliver or receive a preset amount of currency at a future date. Forward currency contracts are used to hedge against foreign currency risk in the Portfolio's long-term holdings.

The table provides the name of the foreign currency, the settlement date of the contract, the amount of the contract, the value of the currency in U.S. dollars and the amount of unrealized gain or loss. The amount of unrealized gain or loss reflects the

change in currency exchange rates from the time the contract was opened to the last day of the reporting period.

### 2B. FUTURES

A table listing future contracts follows each Fund's Schedule of Investments (if applicable). Futures contracts are contracts that obligate the buyer to receive and the seller to deliver an instrument or money at a specified price on a specified date. Futures are used to hedge against adverse movements in securities prices, currency risk or interest rates.

The table provides the name of the contract, number of contracts held, the expiration date, the principal amount, value and the amount of unrealized gain or loss. The amount of unrealized gain or loss reflects the marked to market amount for the last day of the fiscal period.

## 3. STATEMENT OF ASSETS AND LIABILITIES

This statement is often referred to as the "balance sheet." It lists the assets and liabilities of the Portfolios on the last day of the reporting period.

The Portfolios' 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 stocks owned and the receivable for Portfolio shares sold to investors but not yet settled. The Portfolios' 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 last section of this statement reports the net asset value (NAV) per share on the last day of the reporting period for each class of the Portfolio. The NAV is calculated by dividing the Portfolios' net assets (assets minus liabilities) by the number of shares outstanding.

## 4. STATEMENT OF OPERATIONS

This statement details the Portfolios' income, expenses, gains and losses on securities and currency transactions, and appreciation or depreciation of current Portfolio holdings.

The first section in this statement, entitled "Investment Income," reports the dividends earned from stocks and interest earned from interest-bearing securities in the Portfolio.

The next section reports the expenses and expense offsets incurred by the Portfolios, including the advisory fee paid to the investment adviser.

# Explanations of Charts, Tables and Financial Statements

(unaudited) (continued)

The last section lists the increase or decrease in the value of securities held in the Portfolios. Portfolios realize a gain (or loss) when they sell their position in a particular security. An unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolios during the 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.

## 5. STATEMENT OF CHANGES IN NET ASSETS

This statement reports the increase or decrease in the Portfolios’ net assets during the reporting period. Changes in the Portfolios’ net assets are attributable to investment operations, dividends, distributions and capital share transactions. This is important to investors because it shows exactly what caused the Portfolios’ 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 Portfolios’ investment performance. The Portfolios’ net assets may also change as a result of dividend and capital gains distributions to investors. If investors receive their dividends in cash, money is taken out of the Portfolio to pay the distribution. If investors reinvest their dividends, the Portfolios’ net assets will not be affected. If you compare each Portfolio’s “Net Decrease from Dividends and Distributions” to the “Reinvested dividends and distributions,” you’ll notice that dividend distributions had little effect on each Portfolio’s net assets. This is because the majority of Janus investors reinvest their distributions.

The reinvestment of dividends is included under “Capital Share Transactions.” “Capital Shares” refers to the money investors contribute to the Portfolios through purchases or withdrawal via redemptions. Each Portfolio’s net assets will increase and decrease in value as investors purchase and redeem shares from a Portfolio.

The section entitled “Net Assets Consist of” breaks down the components of the Portfolios’ net assets. Because Portfolios must distribute substantially all earnings, you’ll notice that a significant portion of net assets is shareholder capital.

## 6. FINANCIAL HIGHLIGHTS

This schedule provides a per-share breakdown of the components that affect the net asset value (NAV) for current and past reporting periods for each class of the Portfolio. Not only does this table provide you with total return, it also reports total distributions, asset size, expense 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 per share, which comprises dividends and interest income earned on securities held by the Portfolios. Following is the total of gains, realized and unrealized. Dividends and distributions are then subtracted to arrive at the NAV per share at the end of the period.

The next line reflects the total return reported the last day of the period.

Also included are the expense ratios, or the percentage of net assets that was used to cover operating expenses during the period. Expense ratios vary across the Portfolios for a number of reasons, including the differences in management fees, the frequency of dividend payments and the extent of foreign investments, which entail greater transaction costs.

The Portfolios’ expenses may be reduced through expense-reduction arrangements. These arrangements include the use of brokerage commissions, uninvested cash balances earning interest or balance credits. The Statement of Operations reflects total expenses before any such offset, the amount of offset and the net expenses. The expense ratios listed in the Financial Highlights reflect total expenses both prior to any expense offset and after the offsets.

The ratio of net investment income/(loss) summarizes the income earned less expenses divided by the average net assets of a Portfolio during the reporting period. Don’t confuse this ratio with a Portfolio’s yield. The net investment income ratio is not a true measure of a Portfolio’s yield because it doesn’t take into account the dividends distributed to the Portfolio’s investors.

The next ratio is the portfolio turnover rate, which measures the buying and selling activity in a Portfolio. Portfolio turnover is affected by market conditions, changes in the size of a Portfolio, the nature of the Portfolio’s investments and the investment style of the portfolio manager. A 100% rate implies that an amount equal to the value of the entire Portfolio is turned over in a 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 Portfolio is sold every six months.

# Trustees and Officers (unaudited)

The following are the Trustees and officers of the Trust, together with a brief description of their principal occupations during the last five years.

Each Trustee has served in that capacity since he was originally elected or appointed. The Trustees do not serve a specified term of office. Each Trustee will hold office until the termination of the Trust or his earlier death, resignation, retirement, incapacity, or removal. The retirement age for Trustees is 72. The Funds' Nominating and Governance Committee will consider nominees for the position of Trustee recommended by shareholders. Shareholders may submit the name of a

candidate for consideration by the Committee by submitting their recommendations to the Trust's Secretary. Each Trustee is currently a Trustee of two other registered investment companies advised by Janus Capital: Janus Investment Fund and Janus Adviser Series. Collectively, these three registered investment companies consist of 59 series or funds.

The Portfolios' officers are elected annually by the Trustees for a one-year term. Each portfolio manager also manages other Janus Capital accounts. Certain officers also serve as officers of Janus Investment Fund and Janus Adviser Series.

## Trustees

Name, Age and Address	Positions Held with Portfolios	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
<i>Interested Trustee</i>					
Thomas H. Bailey* 100 Fillmore Street Denver, CO 80206 Age 65	Chairman and Trustee	5/93-Present	Formerly, President (1978-2002) and Chief Executive Officer (1994-2002) of Janus Capital or Janus Capital Corporation; President and Director (1994-2002) of the Janus Foundation. Chairman and Director (1978-2002) of Janus Capital Corporation; and Director (1997-2001) of Janus Distributors Inc.	59	N/A
<i>Independent Trustees</i>					
William F. McCalpin 100 Fillmore Street Denver, CO 80206 Age 45	Trustee	6/02-Present	Executive Vice President and Chief Operating Officer of the Rockefeller Brothers Fund (a private family foundation). Formerly, Director of Investments (1991-1998) of the John D. and Catherine T. MacArthur Foundation (a private family foundation).	59	Founding Director and Board Chair, Solar Development Foundation; Trustee and Vice President, Asian Cultural Council.
John W. McCarter, Jr. 100 Fillmore Street Denver, CO 80206 Age 64	Trustee	6/02-Present	President and Chief Executive Officer of the Field Museum of Natural History. Formerly, Senior Vice President (1987-1997) of Booz-Allen & Hamilton, Inc. (a management consulting firm).	59	Chairman of the Board, Divergence LLC; Director of A.M. Castle & Co., Harris Insight Funds, W.W. Grainger Inc.; Trustee of WTTW (Chicago public television station), the University of Chicago and Chicago Public Education Fund.
Dennis B. Mullen 100 Fillmore Street Denver, CO 80206 Age 59	Trustee	9/93-Present	Private Investor. Formerly (1997-1998) Chief Financial Officer – Boston Market Concepts, Boston Chicken, Inc., Golden, CO (a restaurant chain)	59	Board member, Red Robin Gourmet Burgers, Inc.

\*The Portfolios are treating Mr. Bailey as an "interested person" of the Trust by virtue of his past positions and continuing relationships with Janus Capital.

# Trustees and Officers (unaudited) (continued)

## Trustees (cont.)

Name, Age and Address	Positions Held with Portfolios	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
<i>Independent Trustees (cont.)</i>					
James T. Rothe 100 Fillmore Street Denver, CO 80206 Age 59	Trustee	1/97-Present	Professor of Business, University of Colorado, Colorado Springs. Formerly, Distinguished Visiting Professor of Business (2001-2002), Thunderbird (American Graduate School of International Management), Phoenix, AZ; and Principal (1999) of Phillips-Smith Retail Group, Colorado Springs, CO (a venture capital firm).	59	Director of Optika, Inc. and NeoCore Corp.
William D. Stewart 100 Fillmore Street Denver, CO 80206 Age 58	Trustee	9/93-Present	Corporate Vice President and General Manager of MKS Instruments – HPS Products, Boulder, CO (a manufacturer of vacuum fittings and valves)	59	N/A
Martin H. Waldinger 100 Fillmore Street Denver, CO 80206 Age 64	Trustee	9/93-Present	Consultant	59	N/A

## Officers

Name, Age and Address	Positions Held with Portfolios	Term of Office** and Length of Time Served	Principal Occupations During the Past Five Years
Laurence J. Chang* 100 Fillmore Street Denver, CO 80206 Age 37	Executive Vice President and Co-Portfolio Manager Worldwide Growth Portfolio	1/00-Present	Vice President of Janus Capital. Formerly, Analyst (1993-1998) for Janus (2002) for other Janus accounts and Capital Corporation.
Jonathan D. Coleman* 100 Fillmore Street Denver, CO 80206 Age 31	Executive Vice President and Portfolio Manager Aggressive Growth Portfolio	2/02-Present	Vice President of Janus Capital. Formerly, Co-Portfolio Manager (1997-2000) for other Janus accounts and Analyst (1994-1997 and 2000-2002) for Janus Capital Corporation.
David J. Corkins* 100 Fillmore Street Denver, CO 80206 Age 36	Executive Vice President and Portfolio Manager Growth and Income Portfolio	11/97-Present	Vice President of Janus Capital. Formerly, Analyst (1995-1997) for Janus Capital Corporation.
David C. Decker* 100 Fillmore Street Denver, CO 80206 Age 36	Executive Vice President and Portfolio Manager Strategic Value Portfolio	12/99-Present	Vice President of Janus Capital. Formerly, Portfolio Manager (1996-2002) for other Janus accounts and Assistant Vice President (1996-1997) of Janus Capital Corporation.
Helen Young Hayes* 100 Fillmore Street Denver, CO 80206 Age 40	Executive Vice President and Co-Portfolio Manager Worldwide Growth Portfolio and International Growth Portfolio	3/94-Present	Vice President and Managing Director of Janus Capital and Director of Janus Capital Group Inc. Formerly, Director (2000-2002) for Janus Capital Corporation.
C. Mike Lu* 100 Fillmore Street Denver, CO 80206 Age 33	Executive Vice President and Portfolio Manager Global Technology Portfolio	12/99-Present	Vice President of Janus Capital. Formerly, Analyst (1991-1998) for Janus Capital Corporation.
Brent A. Lynn* 100 Fillmore Street Denver, CO 80206 Age 38	Executive Vice President and Co-Portfolio Manager International Growth Portfolio	1/01-Present	Vice President of Janus Capital. Formerly, Analyst (1991-2001) for Janus Capital Corporation.
Thomas R. Malley* 100 Fillmore Street Denver, CO 80206 Age 34	Executive Vice President and Portfolio Manager Global Life Sciences Portfolio	12/99-Present	Vice President of Janus Capital. Formerly, Analyst (1991-1998) for Janus Capital Corporation.
Karen L. Reidy* 100 Fillmore Street Denver, CO 80206 Age 35	Executive Vice President and Portfolio Manager Balanced Portfolio and Core Equity Portfolio	1/00-Present	Vice President of Janus Capital. Formerly, Analyst (1995-1999) for Janus Capital Corporation.
Blaine P. Rollins* 100 Fillmore Street Denver, CO 80206 Age 35	Executive Vice President and Portfolio Manager Growth Portfolio	1/00-Present	Vice President of Janus Capital. Formerly, Portfolio Manager (1996-1999) for other Janus accounts.
Scott W. Schoelzel* 100 Fillmore Street Denver, CO 80206 Age 44	Executive Vice President and Portfolio Manager Capital Appreciation Portfolio	5/97-Present	Vice President of Janus Capital.
Ronald V. Speaker* 100 Fillmore Street Denver, CO 80206 Age 38	Executive Vice President and Portfolio Manager Flexible Income Portfolio	5/93-Present	Vice President of Janus Capital. Formerly, Portfolio Manager (1995-1998) for other Janus accounts.

\*"Interested person" of the Trust by virtue of positions with Janus Capital.

\*\*Officers are elected annually by the Trustees for a one-year term.



# Trustees and Officers (unaudited) (continued)

## Officers (cont.)

Name, Age and Address	Positions Held with Fund	Term of Office** and Length of Time Served	Principal Occupations During the Past Five Years
J. Eric Thorderson* 100 Fillmore Street Denver, CO 80206 Age 41	Executive Vice President and Portfolio Manager Money Market Portfolio	1/01-Present	Vice President of Janus Capital. Formerly, Senior Analyst (1996-1999) for Janus Capital Corporation.
Jason P. Yee* 100 Fillmore Street Denver, CO 80206 Age 33	Executive Vice President and Portfolio Manager International Value Portfolio	3/01-Present	Vice President of Janus Capital. Formerly, Portfolio Manager and Managing Director (1996-2000) for Bee & Associates and Analyst (2000-2001) for Janus Capital Corporation.
Thomas A. Early* 100 Fillmore Street Denver, CO 80206 Age 48	Vice President and General Counsel	3/98-Present	Vice President, General Counsel, Chief Corporate Affairs Officer, Secretary and Interim Director of Janus Capital; Vice President, General Counsel and Secretary of Janus Services LLC, Janus Capital International LLC and Janus Institutional Services LLC; Vice President, General Counsel and Director to Janus International (Asia) Limited and Janus International Limited; Vice President, General Counsel and Secretary to Janus Distributors LLC and the Janus Foundation; and Director for Janus Capital Trust Manager Limited, Janus World Protected Funds and Janus World Funds. Formerly, Director (2001) of Janus Distributors, Inc. and Janus Services, Inc.; Vice President, General Counsel, secretary and Director (2000-2002) of Janus International Holding, Inc.; Executive Vice President and General Counsel (1997-1998) of Prudential Investments Fund Management LLC; and Vice President and General Counsel (1994-1997) of Prudential Retirement Services.
Anita E. Falicia 100 Fillmore Street Denver, CO 80206 Age 34	Vice President, Chief Financial Officer Treasurer and Principal Accounting Officer	10/02-Present	Vice President of Investment Accounting of Janus Capital. Formerly, Assistant Vice President (2000-2002) of Investment Accounting of Janus Capital or Janus Capital Corporation; Director (1999-2000) of Investment Accounting of Janus Capital Corporation; and Director (1997-1999) of Fund Accounting of Janus Capital Corporation.
Bonnie M. Howe* 100 Fillmore Street Denver, CO 80206 Age 37	Vice President	12/99-Present	Vice President and Assistant General Counsel to Janus Capital, Janus Distributors LLC and Janus Services LLC. Formerly, Assistant Vice President (1997-1999) and Associate Counsel (1995-1999) for Janus Capital Corporation and Assistant Vice President (1998-2000) for Janus Service Corporation.
Kelley Abbott Howes* 100 Fillmore Street Denver, CO 80206 Age 37	Vice President and Secretary	12/99-Present	Vice President of Domestic Funds and Assistant General Counsel of Janus Capital; Vice President and Assistant General Counsel of Janus Distributors LLC and Janus Services LLC. Formerly, Assistant Vice President (1997-1999) of Janus Capital Corporation; Chief Compliance Officer, Director and President (1997-1999) of Janus Distributors, Inc.; and Assistant Vice President (1998-2000) of Janus Service, Corp.

\*"Interested person" of the Trust by virtue of positions with Janus Capital.

\*\*Officers are elected annually by the Trustees for a one-year term.

Name, Age and Address	Positions Held with Fund	Term of Office** and Length of Time Served	Principal Occupations During the Past Five Years
David R. Kowalski 100 Fillmore Street Denver, CO 80206 Age 45	Vice President	6/02-Present	Vice President and Chief Compliance Officer of Janus Capital and Janus Distributors LLC; and Assistant Vice President of Janus Services LLC. Formerly, Senior Vice President and Director (1985-2000) of Mutual Fund Compliance for Van Kampen Funds.
Loren M. Starr* 100 Fillmore Street Denver, CO 80206 Age 41	Vice President and Chief Executive Officer	9/02-Present	Vice President, Chief Financial Officer and Interim Director of Janus Capital; Vice President, Treasurer and Chief Financial Officer of Janus Services LLC and Janus International Limited; Vice President of, Treasurer and Chief Financial Officer of Janus Distributors LLC, Janus Capital International LLC and Janus Institutional Services LLC; and Director of Janus Capital Trust Manager Limited; Janus World Principal Protected Funds and Janus World Funds. Formerly, Vice President of Finance, Treasurer, CFO (2001-2002) and Director (2002) for Janus International Holding, Inc.; Managing Director, Treasurer and Head of Corporate Finance and Reporting (1998-2001) for Putnam Investments; and Senior Vice President of Financial Planning and Analysis (1996-1998) for Lehman Brothers, Inc.
Heidi J. Walter* 100 Fillmore Street Denver, CO 80206 Age 35	Vice President	4/00-Present	Vice President and Assistant General Counsel to Janus Capital and Janus Services LLC. Formerly, Vice President and Senior Legal Counsel (1995-1999) for Stein Roe & Farnham, Inc.

\*"Interested person" of the Trust by virtue of positions with Janus Capital.

\*\*Officers are elected annually by the Trustees for a one-year term.

# PROSPECTUS SUPPLEMENTS

This section includes supplements to  
your current prospectus.

Please read these supplements carefully and retain  
with your current prospectus.

(Prospectus Supplement documents are not part of this Report.)

# Scudder Variable Series I

- International Portfolio

## Supplement to Prospectus Dated May 1, 2002

*The following supplements the information in "The Subadvisor" section of the prospectus:*

In connection with the acquisition of Zurich Scudder by Deutsche Bank AG, Deutsche Bank AG will be consolidating its investment operations. In this regard, shareholders of the Portfolio recently approved a new subadvisory agreement between the advisor and Deutsche Asset Management Investment Services Ltd. ("DeAMIS"), One Appold Street, London, England, an affiliate of the advisor. As part of this consolidation process, investment personnel will be moved among Deutsche advisory affiliates and, in the future, the advisor will seek approval from the Portfolio's Board to implement this subadvisory relationship with DeAMIS. During the interim period prior to the implementation of the subadvisory relationship, certain of the portfolio managers will become employees of DeAMIS, and act as consultants to the Portfolio's advisor, under the supervision of the Portfolio's advisor.

*The following replaces the information in "The Portfolio Managers" section of the Portfolio's prospectus:*

The following people handle the day-to-day management of the Portfolio:

**Clare Brody\***

CFA, Director of Deutsche Asset Management and Co-Manager of the Portfolio.

- Joined Deutsche Asset Management in 1993 and the Portfolio in 2002.
- Portfolio manager with primary focus on European markets and senior analyst covering global telecommunications and pulp and paper.
- 10 years of investment industry experience.

**Marc Slendebroek\***

Vice President of Deutsche Asset Management and Co-Manager of the Portfolio.

- Joined Deutsche Asset Management in 1994 and the Portfolio in 1999.
- Over 13 years of investment industry experience.
- MA, University of Leiden (Netherlands).

**Joseph DeSantis\*\***

Managing Director of Deutsche Asset Management and Co-Manager of the Portfolio.

- Joined Deutsche Asset Management in 2000 and the Portfolio in 2002.
- Oversees all equity portfolio managers based in the Americas region.
- Chief Investment Officer at Chase Trust Bank in Tokyo, Japan, a division of Chase Global Asset Management and Mutual Funds (1996–2000).
- Head of International Equities at Chase in New York (1992–1996).
- Positions as a portfolio manager at Chase (1990–1992). Founding partner, investment strategist at Strategic Research International, Inc.

**Alex Tedder+**

Director of Deutsche Asset Management and Consultant to the Portfolio.

- Joined Deutsche Asset Management in 1994 and the Portfolio in 2002.
- Previously managed European equities and responsible for insurance sector with 4 years of experience at Schroder Investment Management.
- Head of International Select Equity strategy; portfolio manager and analyst for Core EAFE strategy: London.
- MA, Freiburg University.

**Stuart Kirk\*\***

Associate Director of Deutsche Asset Management and Consultant to the Portfolio.

- Joined Deutsche Asset Management in 1995 and the Portfolio in 2002.
- Analyst and fund manager in London, having since served as portfolio manager and analyst for International Equity in Sydney.
- Portfolio manager for EAFE Equity and global equity analyst for Business Services & Transport sector: London.
- MA, Cambridge University.

\* *During the interim period, will become an employee of a Deutsche affiliate and serve as a Consultant to the Portfolio's advisor. Thereafter, will serve as a Co-Manager of the Portfolio.*

\*\* *After the interim period, will no longer serve as a Co-Manager of the Portfolio.*

+ *Currently an employee of a Deutsche affiliate, serving as a Consultant to the Portfolio's advisor. After the interim period, will serve as Lead Manager of the Portfolio.*

\*\* *Currently an employee of a Deutsche affiliate, serving as a Consultant to the Portfolio's advisor. After the interim period, will serve as a Co-Manager of the Portfolio.*



## Scudder Variable Series II

- Scudder International Select Equity Portfolio

### Supplement to Prospectus Dated May 1, 2002

The following supplements the information in the "Portfolio Subadvisors" section of the prospectus:

#### Subadvisor for Scudder International Select Equity Portfolio

In connection with the acquisition of Zurich Scudder by Deutsche Bank AG, Deutsche Bank AG will be consolidating its investment operations. In this regard, shareholders of the Portfolio recently approved a new subadvisory agreement between the advisor and Deutsche Asset Management Investment Services Ltd. ("DeAMIS"), One Appold Street, London, England, an affiliate of the advisor. As part of this consolidation process, investment personnel will be moved among Deutsche advisory affiliates and, in the future, the advisor will seek approval from the Portfolio's Board to implement this subadvisory relationship with DeAMIS. During the interim period prior to the implementation of the subadvisory relationship, certain of the portfolio managers will become employees of DeAMIS, and act as consultants to the Portfolio's advisor, under the supervision of the Portfolio's advisor.

The following replaces the information in "The Portfolio Managers" section of the portfolio's prospectus:

The following people handle the day-to-day management of the portfolio:

##### **Clare Brody\***

CFA, Director of Deutsche Asset Management and Co-Manager of the Portfolio.

- Joined Deutsche Asset Management in 1993 and the Portfolio in 2002.
- Portfolio manager with primary focus on European markets and senior analyst covering global telecommunications and pulp and paper.
- 10 years of investment industry experience.

##### **Marc Slendebroek\***

Vice President of Deutsche Asset Management and Co-Manager of the Portfolio.

- Joined Deutsche Asset Management in 1994 and the Portfolio in 2002.
- Over 13 years of investment industry experience.
- MA, University of Leiden (Netherlands).

##### **Joseph DeSantis\*\***

Managing Director of Deutsche Asset Management and Co-Manager of the Portfolio.

- Joined Deutsche Asset Management in 2000 and the Portfolio in 2002.
- Oversees all equity portfolio managers based in the Americas region.
- Chief Investment Officer at Chase Trust Bank in Tokyo, Japan, a division of Chase Global Asset Management and Mutual Funds (1996–2000).
- Head of International Equities at Chase in New York (1992–1996).
- Positions as a portfolio manager at Chase (1990–1992). Founding partner, investment strategist at Strategic Research International, Inc.

##### **Alex Tedder+**

Director of Deutsche Asset Management and Consultant to the Portfolio.

- Joined Deutsche Asset Management in 1994 and the Portfolio in 2002.
- Previously managed European equities and responsible for insurance sector with 4 years of experience at Schroder Investment Management.
- Head of International Select Equity strategy; portfolio manager and analyst for Core EAFE strategy: London.
- MA, Freiburg University.

##### **Stuart Kirk\*\***

Associate Director of Deutsche Asset Management and Consultant to the Portfolio.

- Joined Deutsche Asset Management in 1995 and the Portfolio in 2002.
- Analyst and fund manager in London, having since served as portfolio manager and analyst for International Equity in Sydney.
- Portfolio manager for EAFE Equity and global equity analyst for Business Services & Transport sector: London.
- MA, Cambridge University.

##### **James Pulsford**

Director of Deutsche Asset Management and Consultant to the Portfolio.

- Joined Deutsche Asset Management in 1984 and the Portfolio in 2002.
- 17 years of investment industry experience including 12 years in Tokyo office specializing in small company investment.

\* During the interim period, will become an employee of a Deutsche affiliate and serve as a Consultant to the Portfolio's advisor. Thereafter, will serve as a Co-Manager of the Portfolio.

\*\* After the interim period, will no longer serve as a Co-Manager of the Portfolio.

+ Currently an employee of a Deutsche affiliate, serving as a Consultant to the Portfolio's advisor. After the interim period, will serve as Lead Manager of the Portfolio.

\*\* Currently an employee of a Deutsche affiliate, serving as a Consultant to the Portfolio's advisor. After the interim period, will serve as a Co-Manager of the Portfolio.



May 22, 2002

THE DREYFUS SOCIALLY RESPONSIBLE GROWTH FUND, INC.

Supplement to Prospectus  
dated May 1, 2002

On May 22, 2002, the Fund's Board of Directors and The Dreyfus Corporation ("Dreyfus"), the Fund's investment adviser, notified NCM Capital Management Group, Inc. ("NCM") of the termination of the Sub-Investment Advisory Agreement between Dreyfus and NCM, with respect to the Fund, pursuant to the terms of the Agreement. Effective immediately, Dreyfus has assumed day-to-day portfolio management responsibility for the Fund and Emerson Tuttle is the Fund's new primary portfolio manager with respect to selection of portfolio securities.

Mr. Tuttle has been employed by Dreyfus since January 2002. He also is senior vice president and chief investment officer of Mellon Growth Advisors, an affiliate of Dreyfus. Prior to joining Mellon Growth Advisors in September 2001, he was a principal at State Street Global Advisors where he was employed from April 1981 to September 2001.

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## Important Notice Regarding Change in Investment Policy

# Scudder Variable Series II

- Scudder High Yield Portfolio

## Supplement To Prospectus Dated May 1, 2002

On or about October 7, 2002, the Portfolio will be renamed “Scudder High Income Portfolio” and its current 80% investment policy will be revised. The Portfolio’s current policy states that, under normal circumstances, the Portfolio generally invests at least 80% of net assets, plus the amount of any borrowings for investment purposes, in lower rated, high yield/high risk fixed-income securities, often called junk bonds. This policy will be revised as follows: Under normal circumstances, the Portfolio generally invests at least 65% of net assets, plus the amount of any borrowings for investment purposes, in lower rated, high yield/high risk fixed-income securities, often called junk bonds. This policy may be changed without prior notice to shareholders.

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## Scudder Variable Series II

- Scudder New Europe Portfolio

### Supplement to Prospectus Dated May 1, 2002

The Board of Scudder Variable Series II recently approved an Agreement and Plan of Reorganization (the “Plan”) between the above-noted Portfolio (the “Portfolio”) and Scudder Variable Series II — Scudder International Select Equity Portfolio (the “Acquiring Portfolio”).

The Plan provides for the transfer of substantially all of the assets and the assumption of all of the liabilities of the Portfolio solely in exchange for Class A voting shares of the Acquiring Portfolio. The shares received by the Portfolio would then be distributed to its shareholders as part of the Portfolio’s liquidation provided for in the Plan. (The transaction contemplated by the Plan is referred to as the “Reorganization.”)

The Reorganization can be consummated only if, among other things, it is approved by a majority vote of shareholders of the Portfolio. A Special Meeting (the “Meeting”) of the shareholders of the Portfolio will be held on or about October 29, 2002 and shareholders will be given the opportunity to vote on the Plan and any other matters affecting the Portfolio at that time. In connection with the Meeting, the Portfolio will deliver to its shareholders: (i) a Proxy Statement/Prospectus describing in detail the Reorganization and the Board’s considerations in recommending that shareholders approve the Reorganization, and (ii) a Prospectus for the Acquiring Portfolio.

If the Plan is approved at the Meeting and certain conditions required by the Plan are satisfied, the Reorganization is expected to become effective at 9:00 a.m. Eastern standard time on or about November 4, 2002. If shareholder approval of the Plan is delayed due to failure to obtain a quorum or otherwise, the Reorganization will become effective as soon as practicable after the receipt of shareholder approval.

In the event shareholders of the Portfolio fail to approve the Plan, the Portfolio will continue to operate and the Board may resubmit the Plan for shareholder approval or consider other proposals.



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# Scudder Variable Series II

- Scudder Strategic Income Portfolio

## Supplement to Prospectus Dated May 1, 2002

Effective on or about September 2, 2002, the following information supplements the current disclosure in the "Portfolio Subadvisors" section of the portfolio's prospectus:

### Subadvisor for Scudder Strategic Income Portfolio

Deutsche Asset Management Investments Services Ltd. ("DeAMIS"), One Appold Street, London, England, an affiliate of the advisor, is the subadvisor for Scudder Strategic Income Portfolio responsible for managing the portion of the portfolio's assets invested in emerging market debt securities. DeAMIS provides a full range of international investment advisory services to institutional and retail clients.

The Advisor pays DeAMIS for its services a sub-advisory fee, payable monthly, at the annual rate of 0.500% for the first \$250 million of average daily net assets allocated to DeAMIS for management, 0.490% of the next \$250 million of such net assets, 0.470% of the next \$500 million of such net assets, and 0.430% of such net assets in excess of \$1 billion.

Effective on or about September 2, 2002, the following replaces the information in "The Portfolio Managers" section of the portfolio's prospectus as it relates to the Strategic Income Portfolio:

The following people handle the day-to-day management of the portfolio:

#### **Jan Faller**

Managing Director of Deutsche Asset Management and Lead Manager of the portfolio.

- Joined Deutsche Asset Management in 1999 and the portfolio in 2000.
- Over 12 years of investment industry experience.
- PanAgora Asset Management, Bond and Currency Investment Manager from 1995 to 1999.
- MBA, Amos Tuck School, Dartmouth College.

#### **Greg Boal**

Managing Director of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 2000 and the portfolio in 2002.
- Previously served as senior vice president and director of the Fixed Income Division of Chicago-based ABN AMRO Asset Management USA; manager of the corporate bond department at ABN AMRO from 1997 to 2000.
- MS, Finance, University of Wyoming.

Effective on or about September 2, 2002, the following people handle the day-to-day management of the emerging market debt securities held by the portfolio:

#### **Brett Diment**

Managing Director of Deutsche Asset Management.

- Joined Deutsche Asset Management in 1991.
- Over 12 years of investment industry experience.
- Head of Emerging Market Debt for London Fixed Income and responsible for coordinating research into Continental European markets and managing global fixed income, balanced and cash based portfolio: London.
- Joined the portfolio in 2002.

#### **Edwin Gutierrez**

Vice President of Deutsche Asset Management.

- Member of Emerging Debt team: London.
- Joined Deutsche Asset Management in 2000 after 5 years of experience including emerging debt portfolio manager at INVESCO Asset Management responsible for Latin America and Asia and economist responsible for Latin America at LGT Asset Management.
- Joined the portfolio in 2002.
- MsC, Georgetown University.

#### **Ian Clarke**

Managing Director of Deutsche Asset Management.

- Chief Investment Officer of Global Fixed Income and responsible for global asset allocation strategy: London.
- Joined Deutsche Asset Management in 1999 after 15 years of experience, previously serving The United Bank of Kuwait plc as a senior global fixed income portfolio manager and more recently as an executive director at Morgan Stanley Dean Witter.
- Joined the portfolio in 2002.
- BSc, the University of Salford.

#### **Timothy C. Vile**

Managing Director of Deutsche Asset Management.

- Joined Deutsche Asset Management in 1991 with 6 years of experience that included portfolio manager for fixed income portfolios at Equitable Capital Management.
- Joined the Portfolio in 2002.

SUPPLEMENT DATED JUNE 5, 2002  
TO PROSPECTUS DATED MAY 1, 2002 FOR  
KEMPER INVESTORS LIFE INSURANCE COMPANY

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**INDIVIDUAL AND GROUP VARIABLE, FIXED AND MARKET  
VALUE ADJUSTED DEFERRED ANNUITY CONTRACTS**

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Issued By  
KILICO VARIABLE ANNUITY SEPARATE ACCOUNT  
and  
KEMPER INVESTORS LIFE INSURANCE COMPANY

This Supplement amends certain information contained in your Scudder Destinations<sup>SM</sup> Annuity Prospectus. Please read this Supplement carefully and keep it with your Prospectus for future reference.

The fourth sentence of the paragraph beginning with "Fred Alger Management, Inc...." on page 19 of the Prospectus, is hereby deleted in its entirety.

\*\*\*\*\*

**This Supplement must be accompanied by or read in conjunction with a current Prospectus dated May 1, 2002 for the Scudder Destinations<sup>SM</sup> Variable Annuity.**

**SUPPLEMENT DATED JUNE 11, 2002  
TO PROSPECTUS DATED MAY 1, 2002 FOR  
KEMPER INVESTORS LIFE INSURANCE COMPANY**

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**INDIVIDUAL AND GROUP VARIABLE, FIXED AND MARKET VALUE  
ADJUSTED DEFERRED ANNUITY CONTRACTS**

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Issued By  
KILICO VARIABLE ANNUITY SEPARATE ACCOUNT  
and  
KEMPER INVESTORS LIFE INSURANCE COMPANY

This Supplement amends certain information contained in your Scudder Destinations<sup>SM</sup> Annuity Prospectus. Please read it carefully and keep it with your Prospectus for future reference.

The first paragraph under the section entitled “**Guaranteed Retirement Income Benefit: General**” appearing on page 44 of the Prospectus, is hereby modified to read as follows:

“Guaranteed Retirement Income Benefit (“GRIB”) was an optional Contract benefit available under Contracts issued before November 12, 2001. GRIB is not offered on Contracts issued on or after November 12, 2001. We reserve the right to begin offering GRIB at any time.”

\* \* \* \* \*

**This Supplement must be accompanied by or read in conjunction with a current Prospectus dated May 1, 2002 for the Scudder Destinations<sup>SM</sup> Variable Annuity.**

*For use in all states*

**SUPPLEMENT DATED AUGUST 15, 2002  
TO PROSPECTUS DATED MAY 1, 2002 FOR  
KEMPER INVESTORS LIFE INSURANCE COMPANY**

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**INDIVIDUAL AND GROUP VARIABLE, FIXED AND MARKET  
VALUE ADJUSTED DEFERRED ANNUITY CONTRACTS**

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Issued By  
KILICO VARIABLE ANNUITY SEPARATE ACCOUNT  
and  
KEMPER INVESTORS LIFE INSURANCE COMPANY

This Supplement amends the Transfer During Accumulation Period section contained in your Scudder Destinations Annuity prospectus. Please read this Supplement carefully and keep it with your Prospectus for future reference.

The following is added between the second and third full paragraphs to the section entitled "**6. Transfer During Accumulation Period.**" appearing on pages 24 and 25 of the Prospectus:

The following transfers must be requested through standard United States mail:

transfers in excess of \$250,000 per Contract, per day, and

transfers into and out of the Scudder International, the Scudder International Select Equity, the Scudder Global Discovery, the Scudder Global Blue Chip, Scudder New Europe, the Credit Suisse Trust-Emerging Markets, or the Credit Suisse Trust-Global Post-Venture Capital Subaccounts in excess of \$50,000, per Contract, per day.

These administrative procedures have been adopted under the Contract to protect the interests of the remaining Contract Owners from the adverse effects of frequent and large transfers into and out of variable annuity Subaccounts that can adversely affect the investment management of the underlying Portfolios.

We reserve the right to further amend the transfer procedures in the interest of protecting remaining Contract Owners.”

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**SUPPLEMENT DATED SEPTEMBER 16, 2002  
TO PROSPECTUS DATED MAY 1, 2002 FOR  
KEMPER INVESTORS LIFE INSURANCE COMPANY**

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**INDIVIDUAL AND GROUP VARIABLE, FIXED AND MARKET VALUE  
ADJUSTED DEFERRED ANNUITY CONTRACTS**

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Issued By  
KILICO VARIABLE ANNUITY SEPARATE ACCOUNT  
and  
KEMPER INVESTORS LIFE INSURANCE COMPANY

This Supplement amends certain information contained in your Scudder Destinations<sup>SM</sup> Annuity Prospectus. Please read this Supplement carefully and keep it with your Prospectus for future reference.

"Effective October 7, 2002, the Scudder High Yield Portfolio will be renamed Scudder High Income Portfolio. Therefore, all references in the Prospectus to Scudder High Yield Portfolio and Scudder High Yield are hereby replaced with Scudder High Income Portfolio and Scudder High Income."

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# Scudder Variable Series II

- SVS Index 500 Portfolio

## Supplement To The Prospectus Dated May 1, 2002

On September 27, 2002, Deutsche Bank AG agreed to the sale of its global passive equity, enhanced equity and passive fixed income businesses to Northern Trust Corporation. Under this agreement, it is proposed that Deutsche Investment Management Americas Inc. would remain as investment advisor to the above-referenced fund and that Northern Trust Investments, Inc., a subsidiary of Northern Trust Corporation, would become a sub-advisor to the fund, subject to Board and shareholder approval and satisfaction of certain other conditions, within three to six months.

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## Supplement to the currently effective Prospectus for each of the listed portfolios:

### Scudder Variable Series I:

- 21<sup>st</sup> Century Growth Portfolio
- Global Discovery Portfolio

### Scudder Variable Series II:

- Scudder Aggressive Growth Portfolio
- Scudder Blue Chip Portfolio
- Scudder Small Cap Growth Portfolio
- Scudder Strategic Income Portfolio

[Note: Not all of the above-referenced investment portfolios are available in all products.]

The following people handle the day-to-day management of each of the following portfolios effective November 29, 2002:

#### **21<sup>st</sup> Century Growth Portfolio, Scudder Aggressive Growth Portfolio, Scudder Small Cap Growth Portfolio**

##### ***Audrey M.T. Jones, CFA***

Managing Director of Deutsche Asset Management and Portfolio Manager of the Portfolios.

- Joined Deutsche Asset Management in 1986 and the Portfolios in 2002.
- Portfolio manager with a primary focus on the credit sensitive, communications services, energy, process industries and transportation sectors.
- Over 30 years of investment industry experience.
- BBA, Pace University Lubin School of Business.

##### ***Sam A. Dedio***

Director of Deutsche Asset Management and Portfolio Manager of the Portfolios.

- Joined Deutsche Asset Management in 1999 after eight years of experience, formerly serving as analyst at Ernst & Young, LLP, Evergreen Asset Management and Standard & Poor's Corp.
- Portfolio manager for US small- and mid-cap equity and senior small cap analyst for technology.
- MS, American University.
- Joined the Portfolios in 2002.

##### ***Doris R. Klug, CFA***

Director of Deutsche Asset Management and Portfolio Manager of the Portfolios.

- Joined Deutsche Asset Management in 2000 and the Portfolios in 2002.
- Portfolio manager with a primary focus on the consumer and capital goods sectors.
- Vice President of Mutual of America from 1993-2000.
- Over 21 years of financial industry experience.
- MBA, Stern School of Business, New York University.

#### **Scudder Blue Chip Portfolio**

##### ***David Koziol, CFA***

Director of Deutsche Asset Management and Co-Manager of the Portfolio.

- Joined Deutsche Asset Management in 2001 as head of Global Quantitative Equity Research and international portfolio manager.
- Head of Quantitative Equity Strategies: New York.
- Previously served as principal in the Advanced Strategies and Research Group at Barclay's Global Investors, where he developed quantitative equity, fixed income and hedge fund products, and as an investment banker at Salomon Brothers.
- MBA, Massachusetts Institute of Technology.
- Joined the Portfolio in 2002.

##### ***Michael S. Patchen***

Vice President of Deutsche Asset Management and Co-Manager of the Portfolio.

- Head of US quantitative equity portfolio management: New York.
- Joined Deutsche Asset Management in 2000, with four years of experience including global strategies associate at AQR Capital Management and asset allocation analyst at Goldman Sachs Asset Management.
- Joined the Portfolio in 2002.

##### ***Joshua Feuerman, CFA***

Managing Director of Deutsche Asset Management and Portfolio Manager of the Portfolio.

- Joined Deutsche Asset Management in 1999 and the Portfolio in 2002.
- Director of Investment Product Strategies: New York.
- 10 years of experience at State Street Global Advisors where he served as head of international strategies, including emerging and developed markets, and earlier in product engineering and international equity research.
- MBA, University of Chicago.

## **Global Discovery Portfolio**

### **Joseph Axtell, CFA**

Vice President of Deutsche Asset Management and Co-Manager of the Portfolio.

- Joined Deutsche Asset Management in 2001.
- Senior analyst at Merrill Lynch Investment Managers for the international equity portion of a global balanced portfolio (1996-2001).
- Director, International Research at PCM International (1989-1996).
- Associate manager, structured debt and equity group at Prudential Capital Corporation (1988-1989).
- Analyst at Prudential-Bache Capital Funding in London (1987-1988).
- Equity analyst in the healthcare sector at Prudential Equity Management Associates (1985-1987).
- Joined the Portfolio in 2002.

### **Gerald Moran, CFA**

Managing Director of Deutsche Asset Management and Co-Manager of the Portfolio.

- Joined Deutsche Asset Management's equity research and management area in 1968 as an analyst, has focused on small company stocks since 1982 and has been a portfolio manager since 1985.
- Over 34 years of investment industry experience.
- Joined the Portfolio in 1996.

## **Scudder Strategic Income Portfolio**

### **Jan C. Faller**

Managing Director of Deutsche Asset Management and Lead Manager of the Portfolio.

- Joined Deutsche Asset Management in 1999 and the Portfolio in 2000.
- Over 12 years of investment industry experience.
- PanAgora Asset Management, bond and currency investment manager from 1995 to 1999.
- MBA, Amos Tuck School, Dartmouth College.

### **Andrew P. Cestone**

Managing Director of Deutsche Asset Management and Portfolio Manager of the Portfolio.

- Joined Deutsche Asset Management in March 1998 and the Portfolio in 2002.
- Prior to that, investment analyst, Phoenix Investment Partners, from 1997 to 1998. Prior to that, Credit Officer, asset based lending group, Fleet Bank, from 1995 to 1997.

### **Sean P. McCaffrey, CFA**

Managing Director of Deutsche Asset Management and Portfolio Manager of the Portfolio.

- Joined Deutsche Asset Management in 1996 after five years of experience as fixed income analyst specializing in synthetic GIC bond portfolios at Fidelity Investments.
- Portfolio Manager for stable value strategies, responsible for overseeing the group's stable value and bond index efforts in asset-backed and mortgage-backed securities as well as other financial instruments underlying synthetic GICs: New York.
- MBA, Yale University.
- Joined the Portfolio in 2002.

### **Ian Clarke**

Managing Director of Deutsche Asset Management.

- Joined Deutsche Asset Management in 1999 after 15 years of experience, previously serving The United Bank of Kuwait plc as a senior global fixed income portfolio manager and as an executive director at Morgan Stanley Dean Witter.
- Chief Investment Officer of Global Fixed Income and responsible for global allocation strategy: London.
- Joined the Portfolio in 2002.

### **Brett Diment**

Managing Director of Deutsche Asset Management.

- Joined Deutsche Asset Management in 1991 and the Portfolio in 2002.
- Over 12 years of investment industry experience.
- Head of emerging market debt for London Fixed Income and responsible for coordinating research into Continental European markets and managing global fixed income, balanced and cash based portfolios: London.

### **Edwin Gutierrez**

Vice President of Deutsche Asset Management.

- Joined Deutsche Asset Management in 2000 after five years of experience including emerging debt portfolio manager at INVESCO Asset Management responsible for Latin America and Asia and economist responsible for Latin America at LGT Asset Management.
- MSc, Georgetown University.
- Joined the Portfolio in 2002.



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## Supplement to the currently effective Prospectus for each of the listed Portfolios:

### Scudder Variable Series I:

- Balanced Portfolio
- Capital Growth Portfolio

### Scudder Variable Series II:

- Scudder Growth Portfolio
- Scudder Total Return Portfolio

[Note: Not all of the above-referenced investment portfolios are available in all products.]

Effective December 13, 2002, the following people will handle the day-to-day management of Capital Growth Portfolio and Scudder Growth Portfolio and will handle the day-to-day management of the equity portion of the Balanced Portfolio and Scudder Total Return Portfolio replacing William Gadsden as portfolio manager:

#### *Julie M. Van Cleave, CFA*

Managing Director of Deutsche Asset Management and portfolio manager of the Portfolios.

- Joined Deutsche Asset Management and the Portfolios in 2002.
- Head of Large Cap Growth.
- Previous experience includes 18 years' investment industry experience at Mason Street Advisors, most recently serving as Managing Director and team leader for the large cap investment team.
- MBA, University of Wisconsin — Madison.

#### *Thomas J. Schmid, CFA*

Director of Deutsche Asset Management and portfolio manager of the Portfolios.

- Joined Deutsche Asset Management and the Portfolios in 2002.
- Previous experience includes 15 years' investment industry experience, most recently as Director — Common Stock at Mason Street Advisors.
- MBA, University of Chicago.

#### *Jack A. Zehner*

Director of Deutsche Asset Management and portfolio manager of the Portfolios.

- Joined Deutsche Asset Management and the Portfolios in 2002.
- Previous experience includes eight years' investment industry experience at Mason Street Advisors where he served most recently as Director — Common Stock.
- MBA, Marquette University.

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This report must be preceded or accompanied by the current prospectus.

Scudder Destinations<sup>SM</sup> (policy form series L-8166 and L-1550) is a variable, fixed and market value-adjusted deferred annuity contract issued by Kemper Investors Life Insurance Company. Securities are distributed by Investors Brokerage Services, Inc., located at 1600 McConnor Parkway, Schaumburg, IL 60196. Scudder Destinations<sup>SM</sup> may not be available in all states. The contract contains limitations and policy forms may vary by state.

Scudder Investments is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Investment Management Americas Inc., Deutsche Asset Management Inc., Deutsche Bank Securities Inc., Deutsche Asset Management Investment Services Ltd., Deutsche Bank Trust Company Americas and Scudder Trust Company

Investment Managers:

The Alger American Fund  
111 Fifth Avenue  
New York, NY 10003  
Tel (800) 992-3863

Credit Suisse Asset Management, LLC  
P.O. Box 9030  
Boston, MA 02205-9030  
Tel (800) 222-8977

The Dreyfus Family of Funds  
149 Glenn Curtiss Boulevard  
Uniondale, NY 11556-0144  
Tel (800) 554-4611

INVESCO Funds Group, Inc.  
4350 S. Monaco Street  
Denver, CO 80237  
Tel (800) 525-8085

Deutsche Investment Management Americas Inc  
222 South Riverside Plaza  
Chicago, IL 60606  
Tel (800) 778-1482

Janus Capital Corporation  
P.O. Box 173375  
Denver, CO 80217-3375  
Tel (800) 525-3713

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