

Annual report to  
contractholders for the year  
ended December 31, 2004

# Annual report

For contractholders of Scudder Destinations<sup>SM</sup>

AIM Variable Insurance Fund  
The Alger American Fund  
Credit Suisse Trust  
Dreyfus Investment Portfolios  
The Dreyfus Socially Responsible  
Growth Fund, Inc.  
Scudder Variable Series I  
Scudder Variable Series II

# 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.)

## **Supplement to the Prospectus and Statement of Additional Information**

### **Credit Suisse Trust-Global Post-Venture Capital Portfolio**

The Board of Credit Suisse Trust has approved certain changes to the Portfolio (described below), which will become effective on or about February 15, 2005.

*The following information will supersede or supplement certain information in the portfolio's Prospectus and Statement of Additional Information.*

#### **The following will supersede or supplement the description of Goal and Strategies found in the Prospectus:**

Under normal market conditions, the Portfolio will invest at least 80% of net assets, plus any borrowings for investment purposes, in equity securities of small companies from at least three countries, including the U.S.

The portfolio managers will use a bottom-up investment approach to identify fundamentally strong companies trading at a discount to their projected growth rates or intrinsic values (i.e., the present value of the future cash flows that it will generate). The Portfolio will seek capital appreciation by taking advantage of both growth and value opportunities, based on the managers' view of individual companies.

The Portfolio considers a small company to be one whose market capitalization is within the range of capitalizations of companies in the MSCI World Small Cap Index at the time of purchase. As of November 2004, the MSCI World Small Cap Index included companies with market capitalizations between \$16 million and \$3.8 billion.

Some companies may outgrow the definition of a small company after the Portfolio has purchased their securities due to capital appreciation. Such a company will continue to be considered small for purposes of the Portfolio's minimum 80% allocation to small company equities. The Portfolio may invest in companies of any size once the 80% policy is met. As a result, the Portfolio's average market capitalization may sometimes exceed that of the MSCI World Small Cap Index.

The Portfolio may invest up to 20% of its net assets, plus any borrowings for investment purposes, in debt securities.

**Other contrary information in the Prospectus or Statement of Additional Information is also superseded.**

Dated: December 8, 2004

TRGPV-16-1204  
2004-046

**SUPPLEMENT DATED FEBRUARY 21, 2005  
TO PROSPECTUS DATED  
MAY 1, 2004 FOR  
KEMPER INVESTORS LIFE INSURANCE COMPANY**

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**INDIVIDUAL AND GROUP FLEXIBLE  
PREMIUM MODIFIED GUARANTEED,  
FIXED AND VARIABLE DEFERRED ANNUITY CONTRACTS**

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SCUDDER DESTINATIONS<sup>SM</sup> ANNUITY  
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> Variable Annuity Prospectus. Please read this Supplement carefully and keep it with your Prospectus for future reference.

Effective February 21, 2005, the Credit Suisse Trust-Global Post-Venture Capital Portfolio has been renamed the Credit Suisse-Trust Global Small Cap Portfolio. Therefore, all references in the Prospectus to Credit Suisse Trust-Global Post-Venture Capital Portfolio or Credit Suisse Trust-Global Post-Venture Capital Subaccount are hereby replaced with Credit Suisse Trust-Global Small Cap Portfolio and Credit Suisse Trust-Global Small Cap Subaccount, respectively.

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**For use in all states**

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## Scudder Variable Series I

- Balanced Portfolio
- 21st Century Growth Portfolio

## Scudder Variable Series II

- SVS Eagle Focused Large Cap Growth Portfolio
- SVS Focus Value+Growth Portfolio
- Scudder Growth Portfolio
- Scudder Strategic Income Portfolio

### Supplement to the currently effective prospectuses

Deutsche Investment Management Americas Inc. (the “Advisor”), the investment advisor of the above portfolios, is proposing the following mergers as part of the Advisor’s initiative to restructure and streamline the family of Scudder funds. In the chart below, the Acquired Portfolios on the left are merging into the Scudder Acquiring Portfolios on the right.

Acquired Portfolios	Acquiring Portfolios
Balanced Portfolio	Scudder Total Return Portfolio
21st Century Growth Portfolio	Scudder Small Cap Growth Portfolio
SVS Eagle Focused Large Cap Growth Portfolio	Capital Growth Portfolio
SVS Focus Value+Growth Portfolio	Growth and Income Portfolio
Scudder Growth Portfolio	Capital Growth Portfolio
Scudder Strategic Income Portfolio	Bond Portfolio

Completion of each merger is subject to a number of conditions, including final approval by each participating Portfolio’s Board and approval by shareholders of the applicable Acquired Portfolio at a shareholder meeting expected to be held within approximately the next three months. Prior to the shareholder meeting, shareholders of each Acquired Portfolio will receive: (i) a Proxy Statement/Prospectus describing in detail the proposed merger and the Board’s considerations in recommending that shareholders approve the merger; (ii) a proxy card(s) with which shareholders may vote on the proposed merger; and (iii) a Prospectus for the applicable Acquiring Portfolio.

*Please Retain This Supplement for Future Reference*

# AIM V.I. Utilities Fund

Annual Report to Shareholders • December 31, 2004

Effective October 15, 2004, INVESCO VIF-Utilities Fund  
was renamed AIM V.I. Utilities Fund.

AIM V.I. UTILITIES FUND seeks capital growth  
and current income.

Unless otherwise stated, information presented in this report is as of 12/31/04 and is based on total net assets.

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the 1st and 3rd quarters of each fiscal year on Form N-Q. The fund's Form N-Q filings are available on the SEC's Web site at <http://www.sec.gov>. Copies of the fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549-0102. You can obtain information on the operation of the Public Reference Room, including information about duplicating fee charges, by calling 1-202-942-8090 or by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov). The SEC file numbers for the fund are 811-7452 and 33-57340. The fund's most recent portfolio holdings, as filed on Form N-Q, have also been made available to insurance companies issuing variable annuity contracts and variable life insurance policies ("variable products") that invest in the fund.

A description of the policies and procedures that the fund uses to determine how to vote proxies relating to portfolio securities is available without charge, upon request, from our Client Services department at 800-410-4246 or on the AIM Web site, [AIMInvestments.com](http://AIMInvestments.com). On the home page, scroll down and click on AIM Funds Proxy Policy. The information is also available on the Securities and Exchange Commission's Web site, [sec.gov](http://sec.gov).

Information regarding how the fund voted proxies related to its portfolio securities during the 12 months ended 6/30/04 is available at our Web site. Go to [AIMInvestments.com](http://AIMInvestments.com), access the About Us tab, click on Required Notices and then click on Proxy Voting Activity. Next, select your fund from the drop-down menu.

**This report must be accompanied or preceded by a currently effective fund prospectus and variable product prospectus, which contain more complete information, including sales charges and expenses. Investors should read each carefully before investing.**

Your goals. Our solutions.®



Not FDIC insured | May lose value | No bank guarantee

# Management's discussion of fund performance

It was a very good year for the fund and for the utilities sector as a whole. The fund's strong results closely tracked those of its peer group, as represented by the Lipper Utility Fund Index. Further, that index's 23.90% return was more than double the 10.87% return of the S&P 500 Index, which is used to represent the U.S. stock market in general.

FUND VS. INDEXES	
<i>Total returns, 12/31/03-12/31/04, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.</i>	
Series I Shares	23.56%
Series II Shares	23.24
S&P 500 Index (Broad Market Index)	10.87
Lipper Utility Fund Index (Peer Group Index)	23.90
Source: Lipper, Inc.	

The fund's outperformance of the S&P 500 Index occurred largely because the utilities sector outperformed other sectors in that index during the fiscal year. Stocks in the utilities sector have traditionally been popular with investors seeking current income because utilities stocks have typically paid dividends. During 2004, interest rate movements combined with the tax reduction on dividend income made dividend-paying stocks, including utilities, a more appealing alternative.

## How we invest

In pursuit of the fund's objectives of capital growth and current income, we strive to provide a strong dividend yield while also attempting to hold volatility in check.

The fund holds both domestic and international utilities stocks, focusing on three major industries: electric utilities, telecommunications and natural gas. Exposure is diversified across utilities industries, countries and capitalization sizes to limit volatility. We concentrate on companies that demonstrate consistent earning power, hold defensible market positions, and offer good prospects for both earnings growth and dividend yield.

The fund's investment process begins with sector-specific fundamental research to identify trends affecting the utility industries and the companies best positioned to benefit from those trends. Then we use a combination of quantitative, fundamental and valuation analysis to determine which of those stocks would be best suited for the portfolio.

During the year, this strategy led us to a diverse set of investment opportunities for the fund. As a group, stocks in the utility industries and related industries such as energy tended to outperform the broad market for the year, and the fund benefited from successful stock selection.

## Market conditions and your fund

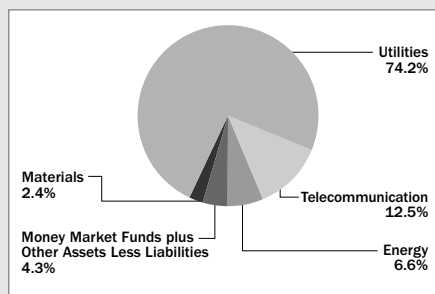
The second half of 2004 offered especially beneficial conditions for the fund and the utilities sector in general. The economy had been growing for several quarters. Beginning in late June, the Federal Reserve (the Fed) began raising its target federal funds rate to forestall the inflation that often accompanies economic growth.

Increases in interest rates have generally tended to lower the value of existing bonds, causing their yields—which move inversely to their prices—to rise. Investors seeking current income often buy utilities stocks as an alternative to bonds, so dividend yield is an important competitive consideration. This year, the reduced taxes on dividend income made dividend-paying equities such as utilities stocks more attractive in comparison to bonds. The resulting increase in demand tended to elevate the market values of utilities stocks, further boosting total return.

This trend continued to build through the remainder of 2004, as the Fed raised its target federal funds rate four more times, reaching 2.25% by the end of the year. Interestingly, though short-term interest rates rose, rates for long-term bonds actually declined. We concluded that this indicated the bond market was pricing in the expectation of more muted economic growth and slower inflation over the longer term. This effect operated to the further advantage of utilities stocks, as their dividend yields compared more favorably with the lower

### PORTFOLIO COMPOSITION

By sector



TOTAL NET ASSETS \$160.2 million

TOTAL NUMBER OF HOLDINGS\* 46

### TOP 10 EQUITY HOLDINGS\*

1. TXU Corp.	4.9%
2. Exelon Corp.	4.6
3. Entergy Corp.	4.2
4. Dominion Resources, Inc.	4.0
5. Questar Corp.	4.0
6. Pacific Gas & Electric Co.	3.9
7. FirstEnergy Corp.	3.7
8. Williams Cos., Inc. (The)	3.6
9. FPL Group, Inc.	3.5
10. Kinder Morgan, Inc.	3.0

\*Excluding money market fund holdings.

### TOP INDUSTRIES\*

1. Electric Utilities	46.7%
2. Multi-Utilities & Unregulated Power	21.3
3. Integrated Telecommunication Services	10.4
4. Oil & Gas Refining, Marketing & Transportation	6.6
5. Gas Utilities	4.7
6. Diversified Metals & Mining	2.4
7. Wireless Telecommunication Services	2.1
8. Water Utilities	1.5

The fund's holdings are subject to change, and there is no assurance that the fund will continue to hold any particular security.

market estimate of bond yields over the long term.

Electric utilities remained the largest industry weighting in the fund, though we reduced that weight somewhat over the course of the year. Regulated electric utilities were especially attractive, as their dividends tend to be higher on average than those of unregulated utilities. However, unregulated utilities typically offer higher earnings growth potential and continued to have a place in the portfolio.

Indeed, the year's top contributor to the fund was Texas-based power producer and marketer TXU Corp., which operates in both regulated and unregulated environments. TXU gained market share as Texas accomplished a successful deregulation of the power industry, and its stock appreciated dramatically during 2004. TXU's management restructured the balance sheet to reduce interest payments and increase profits, and we judged its fundamentals to be sound. In our opinion, the company could achieve cost reductions which could fuel earnings growth.

Also among the holdings that made the largest contributions to fund performance during the year was utility holding company Exelon, a good example of a successful regulated utility. We considered the company well run, and its dividend yield of nearly 4% made it an attractive holding.

As economic and market forces shifted during the year, we moved to take advantage of opportunities and minimize difficulties. We

increased exposure to oil and gas refining and marketing, which benefited from the year's notable increase in energy prices.

We reduced the fund's weighting in telecommunications because we were dissatisfied with the fundamentals of companies in the sector. Many of them have significant debt loads, and the sector as a whole lacks pricing power because of the significant inroads made by the wireless telecommunications industry. Some customers have begun using only cell phones, decreasing demand for the land-line phones that are the backbone of many companies.

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**It was a very good year  
for the fund and for  
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The year's largest detractor from fund performance—though the loss was only a fraction of one percent—was BellSouth, which had been among our largest telecommunication services holdings. After BellSouth became involved with another “Baby Bell” in the purchase of the former AT&T Wireless division, analysts felt the buyers overpaid for the acquisition. BellSouth's stock suffered, and we exited our position.

The fund's international utilities—about 13% of fund assets—performed well on the whole, especially because, as the dollar weakened over the year, exchange rates magnified the dollar value of their returns.

### **In closing**

We were very pleased with the fund's performance during 2004. Of course, we recognize that funds' prospects shift with changing economic conditions, and that there are likely to be periods during which the fund underperforms the broad market. For this reason, we continue to recommend that investors keep their assets diversified among various classes of securities. As always, we thank you for your continued investment in AIM V.I. Utilities Fund.

*The views and opinions expressed in Management's Discussion of Fund Performance are those of AIM Advisors, Inc. These views and opinions are subject to change at any time based on factors such as market and economic conditions. These views and opinions may not be relied upon as investment advice or recommendations, or as an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the fund. Statements of fact are from sources considered reliable, but AIM Advisors, Inc. makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*

### **PRINCIPAL RISKS OF INVESTING IN THE FUND**

International investing presents certain risks not associated with investing solely in the United States. These include risks relating to fluctuations in the value of the U.S. dollar relative to the values of other currencies, the custody arrangements made for the fund's foreign holdings, differences in accounting, political risks and the lesser degree of public information required to be provided by non-U.S. companies. The fund may invest up to 25% of its assets in the securities of non-U.S. issuers. Securities of Canadian issuers and American Depositary Receipts are not subject to this 25% limitation.

Investing in a single-sector or single-region mutual fund involves greater risk and potential reward than investing in a more diversified fund.

Investing in small and mid-size companies involves risks not associated with investing in more established companies, including business risk, significant stock price fluctuations and illiquidity.

Portfolio turnover is greater than that of most funds, which may affect performance.



**John S. Segner**, senior portfolio manager, is lead manager of AIM V.I. Utilities Fund. He has been in the investment business since 1980 and joined INVESCO in 1997. He holds a B.S. from the University of Alabama and an M.B.A. with a concentration in finance from The University of Texas-Austin.

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**For further information on your fund, its expenses and its long-term performance, please turn the page.**



# Calculating your ongoing fund expenses

## Example

As a shareholder of the fund, you incur ongoing costs, including management fees, distribution and/or service fees (12b-1), and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the fund and to compare these costs with ongoing costs of investing in other mutual funds. The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period, July 1, 2004 – December 31, 2004.

The actual and hypothetical expenses in the examples below do not represent the effect of any fees or other expenses assessed in connection with a variable product; if they did, the expenses shown would be higher while the ending account values shown would be lower.

## Actual expenses

The table below provides information about actual account values and actual expenses. You may use the information in this table, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the table under the heading entitled “Actual Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

## Hypothetical example for comparison purposes

The table below also provides information about hypothetical account values and hypothetical expenses based on the fund’s actual expense

ratio and an assumed rate of return of 5% per year before expenses, which is not the fund’s actual return. *The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.*

Please note that the expenses shown in the table are meant to highlight your ongoing costs only. Therefore, the hypothetical information is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds.

Share Class	Beginning Account Value (7/01/04)	ACTUAL		HYPOTHETICAL (5% annual return before expenses)	
		Ending Account Value (12/31/04) <sup>1</sup>	Expenses Paid During Period <sup>2</sup>	Ending Account Value (12/31/04)	Expenses Paid During Period <sup>2</sup>
Series I	\$1,000.00	\$1,203.50	\$5.37	\$1,020.26	\$4.93
Series II	1,000.00	1,201.40	6.75	1,019.00	6.19

<sup>1</sup>The actual ending account value is based on the actual total return of the fund for the period July 1, 2004, to December 31, 2004, after actual expenses and will differ from the hypothetical ending account value which is based on the fund’s expense ratio and a hypothetical annual return of 5% before expenses. The actual cumulative return at net asset value for the period July 1, 2004, to December 31, 2004, was 20.35% and 20.14% for Series I and Series II shares, respectively.

<sup>2</sup>Expenses are equal to the fund’s annualized expense ratio (0.97% and 1.22% for Series I and Series II shares, respectively) multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).

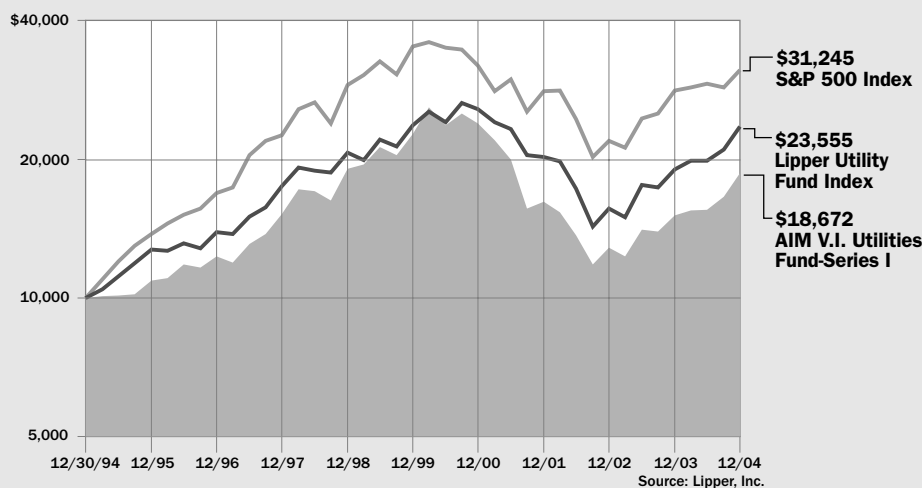
# Your fund's long-term performance

Past performance cannot guarantee comparable future results.

In evaluating this chart, please note that the chart uses a logarithmic scale along the vertical axis (the value scale). This means that each scale increment always represents the same percent change in price; in a linear chart each scale increment always represents the same absolute change in price. In this example, the scale increment between \$5,000 and \$10,000 is the same as that between \$10,000 and \$20,000. In a linear chart, the latter scale increment would be twice as large. The benefit of using a logarithmic scale is that it better illustrates performance during the fund's early years before reinvested distributions and compounding create the potential for the original investment to grow to very large numbers. Had the chart used a linear scale along its vertical axis, you would not be able to see as clearly the movements in the value of the fund and the indexes during the fund's early years. We use a logarithmic scale in financial reports of funds that have more than five years of performance history.

## RESULTS OF A \$10,000 INVESTMENT

12/30/94-12/31/04 Index results from 12/31/94



### AVERAGE ANNUAL TOTAL RETURNS

As of 12/31/04

#### Series I Shares

10 Years	6.44%
5 Years	-3.82
1 Year	23.56

#### Series II Shares

10 Years	6.18%
5 Years	-4.07
1 Year	23.24

Returns since the inception date of Series II shares are historical. All other returns are the blended returns of the historical performance of the fund's Series II shares since their inception and the restated historical performance of the fund's Series I shares (for periods prior to inception of the Series II shares) adjusted to reflect the higher Rule 12b-1 fees applicable to the Series II shares. The inception date of the fund's Series I shares is 12/30/94. The inception date of the fund's Series II shares is 4/30/04. The Series I and Series II shares invest in the same portfolio of securities and will have substantially similar performance, except to the extent that expenses borne by each class differ.

*The performance data quoted represent past performance and cannot guarantee comparable future results; current performance may be lower or higher. Please contact your variable product issuer or financial advisor for the most recent month-end variable product performance.*

*Performance figures reflect fund expenses, reinvested distributions and changes in net asset value. Investment return and principal value will fluctuate so that you may have a gain or loss when you sell shares.*

*AIM V.I. Utilities Fund, a series portfolio of AIM Variable Insurance Funds, is currently offered through insurance companies issuing variable products. You cannot purchase shares of the fund directly. Performance figures given represent the fund and are not intended to reflect actual variable product values. They do not reflect sales charges, expenses and fees assessed in connection with a variable product. Sales charges, expenses and fees, which are determined by the variable product issuers, will vary and will lower the total return.\**

### About indexes used in this report

The unmanaged Standard & Poor's Composite Index of 500 Stocks (the S&P 500® Index) is an index of common stocks frequently used as a general measure of U.S. stock market performance.

The unmanaged Lipper Utility Fund Index represents an average of the 30 largest utility funds tracked by Lipper, Inc., an independent mutual fund performance monitor.

The fund is not managed to track the performance of any particular index, including the indexes defined here, and consequently, the performance of the fund may deviate significantly from the performance of the indexes.

A direct investment cannot be made in an index. Unless otherwise indicated, index results include reinvested dividends, and they do not reflect sales charges. Performance of an index of funds reflects fund expenses; performance of a market index does not.

### Other information

The returns shown in the Management's Discussion of Fund Performance are based on net asset values calculated for shareholder transactions. Generally accepted accounting principles require adjustments to be made to the net assets of the fund at period end for financial reporting purposes, and as such, the net asset values for shareholder transactions and the returns based on those net asset values may differ from the net asset values and returns reported in the Financial Highlights.

Industry classifications used in this report are generally according to the Global Industry Classification Standard, which was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc. and Standard & Poor's.

*\*Per NASD requirements, the most recent month-end performance data at the fund level, excluding variable product charges, is available on this AIM automated information line, 866-702-4402. As mentioned above, for the most recent month-end performance including variable product charges, please contact your variable product issuer or financial consultant.*

# Schedule of Investments

December 31, 2004

	Shares	Market Value
<b>Domestic Common Stocks—82.21%</b>		
<b>Diversified Metals &amp; Mining—2.38%</b>		
Peabody Energy Corp.	47,000	\$ 3,802,770
<b>Electric Utilities—40.73%</b>		
Ameren Corp.	80,000	4,011,200
American Electric Power Co., Inc.	90,000	3,090,600
CenterPoint Energy, Inc.	150,000	1,695,000
Cinergy Corp.	72,000	2,997,360
DTE Energy Co.	36,000	1,552,680
Edison International	135,000	4,324,050
Entergy Corp.	100,000	6,759,000
Exelon Corp.	168,024	7,404,818
FirstEnergy Corp.	150,000	5,926,500
FPL Group, Inc.	75,000	5,606,250
OGE Energy Corp.	70,000	1,855,700
Pacific Gas & Electric Co. <sup>(a)</sup>	190,000	6,323,200
PPL Corp.	87,000	4,635,360
TXU Corp.	122,000	7,876,320
Wisconsin Energy Corp.	35,000	1,179,850
		65,237,888
<b>Gas Utilities—3.42%</b>		
KeySpan Corp.	100,000	3,945,000
Peoples Energy Corp.	35,000	1,538,250
		5,483,250
<b>Integrated Telecommunications Services—9.03%</b>		
Citizens Communications Co.	275,000	3,792,250
SBC Communications Inc.	115,006	2,963,704
Sprint Corp.	170,000	4,224,500
Verizon Communications Inc.	86,019	3,484,630
		14,465,084
<b>Multi-Utilities &amp; Unregulated Power—18.53%</b>		
Calpine Corp. <sup>(a)</sup>	865,000	3,408,100
Dominion Resources, Inc.	95,000	6,435,300
Equitable Resources, Inc.	70,000	4,246,200
ONEOK, Inc.	100,000	2,842,000
Questar Corp.	125,000	6,370,000
SCANA Corp.	50,000	1,970,000
Sempra Energy	120,000	4,401,600
		29,673,200

	Shares	Market Value
<b>Oil &amp; Gas Refining Marketing &amp; Transportation—6.58%</b>		
Kinder Morgan, Inc.	65,000	\$ 4,753,450
Williams Cos., Inc. (The)	355,000	5,782,950
		10,536,400
<b>Water Utilities—1.54%</b>		
Aqua America Inc.	100,000	2,459,000
Total Domestic Common Stocks (Cost \$108,227,862)		131,657,592
<b>Foreign Stocks &amp; Other Equity Interests—13.30%</b>		
<b>France—1.48%</b>		
Veolia Environnement (Multi-Utilities & Unregulated Power) <sup>(b)</sup>	65,400	2,363,122
<b>Germany—1.99%</b>		
E.ON A.G. (Electric Utilities) <sup>(b)</sup>	35,170	3,190,407
<b>Italy—3.39%</b>		
Enel S.p.A. (Electric Utilities) <sup>(b)</sup>	310,000	3,041,186
Telecom Italia S.p.A. (Integrated Telecommunications Services) <sup>(b)</sup>	220,222	712,140
Terna S.p.A. (Electric Utilities)	587,400	1,681,265
		5,434,591
<b>Spain—1.83%</b>		
Endesa, S.A. (Electric Utilities) <sup>(b)</sup>	63,562	1,484,312
Telefonica, S.A. (Integrated Telecommunications Services) <sup>(b)</sup>	76,705	1,439,620
		2,923,932
<b>United Kingdom—4.61%</b>		
Centrica PLC (Gas Utilities) <sup>(b)</sup>	443,250	2,005,758
National Grid Transco PLC (Multi-Utilities & Unregulated Power) <sup>(b)</sup>	218,942	2,083,234
Vodafone Group PLC (Wireless Telecommunication Services) <sup>(b)</sup>	803,526	2,184,489
Vodafone Group PLC-ADR (Wireless Telecommunication Services)	40,600	1,111,628
		7,385,109
Total Foreign Stocks & Other Equity Interests (Cost \$16,932,018)		21,297,161
	<b>Principal Amount</b>	
<b>Bonds &amp; Notes—0.19%</b>		
<b>Electric Utilities—0.13%</b>		
AmerenEnergy Generating Co.—Series C, Sr. Unsec. Global Notes, 7.75%, 11/01/05 <sup>(c)</sup>	\$100,000	103,883
Kansas City Power & Light Co., Sr. Unsec. Notes, 7.13%, 12/15/05 <sup>(c)</sup>	100,000	103,548
		207,431

	Principal Amount	Market Value
<b>Integrated Telecommunications Services—0.06%</b>		
British Telecommunications PLC (United Kingdom), Global Notes, 7.88%, 12/15/05 <sup>(c)</sup>	\$ 100,000	\$ 104,316
Total Bonds & Notes (Cost \$312,814)		311,747
	<b>Shares</b>	
<b>Money Market Funds—4.34%</b>		
Premier Portfolio (Cost \$6,951,654) <sup>(d)(e)</sup>	6,951,654	6,951,654
TOTAL INVESTMENTS—100.04% (Cost \$132,424,348)		160,218,154
OTHER ASSETS LESS LIABILITIES—(0.04%)		(62,531)
NET ASSETS—100.00%		\$160,155,623

Investment Abbreviations:

ADR —American Depositary Receipt  
 Sr. —Senior  
 Unsec. —Unsecured

Notes to Schedule of Investments:

- (a) Non-income producing security.
- (b) In accordance with the procedures established by the Board of Trustees, the foreign security is fair valued using adjusted closing market prices. The aggregate market value of these securities at December 31, 2004 was \$18,504,268, which represented 11.55% of the Fund's Total Investments. See Note 1A.
- (c) In accordance with the procedures established by the Board of Trustees, security fair valued based on an evaluated quote provided by an independent pricing service. The aggregate market value of these securities at December 31, 2004 was \$311,747, which represented 0.19% of the Fund's Total Investments. See Note 1A.
- (d) The money market fund and the Fund are affiliated by having the same investment advisor. See Note 3.
- (e) Effective October 15, 2004, the INVESCO Treasurer's Money Market Reserve Fund was renamed Premier Portfolio. Effective February 25, 2005, shares of Premier Portfolio owned by the Fund will be designated as Investor Class shares.

See accompanying notes which are an integral part of the financial statements.

## Statement of Assets and Liabilities

December 31, 2004

### Assets:

Investments, at market value (cost \$125,472,694)	\$153,266,500
Investments in affiliated money market funds (cost \$6,951,654)	6,951,654
Total investments (cost \$132,424,348)	160,218,154
Foreign currencies, at market value (cost \$739)	737
Receivables for:	
Fund shares sold	147,170
Dividends and interest	349,979
Investments matured (Note 8)	32,358
Investment for trustee deferred compensation and retirement plans	52,882
Total assets	160,801,280

### Liabilities:

Payables for:	
Fund shares reacquired	372,288
Trustee deferred compensation and retirement plans	55,067
Accrued administrative services fees	180,981
Accrued distribution fees—Series II	346
Accrued transfer agent fees	3,484
Accrued operating expenses	33,491
Total liabilities	645,657
Net assets applicable to shares outstanding	\$160,155,623

### Net assets consist of:

Shares of beneficial interest	\$140,450,493
Undistributed net investment income	2,579,006
Undistributed net realized gain (loss) from investment securities and foreign currencies	(10,251,899)
Unrealized appreciation of investment securities and foreign currencies	27,378,023
	\$160,155,623

### Net Assets:

Series I	\$159,553,811
Series II	\$ 601,812

### Shares outstanding, \$0.01 par value per share, unlimited number of shares authorized:

Series I	10,222,926
Series II	38,642
Series I:	
Net asset value per share	\$ 15.61
Series II:	
Net asset value per share	\$ 15.57

## Statement of Operations

For the year ended December 31, 2004

### Investment income:

Dividends (net of foreign withholding tax of \$109,823)	\$ 4,079,900
Dividends from affiliated money market funds	97,854
Interest	11,530
Total investment income	4,189,284

### Expenses:

Advisory fees	614,369
Administrative services fees	277,440
Custodian fees	23,367
Distribution fees—Series II	848
Transfer agent fees	14,046
Trustees' fees and retirement benefits	13,153
Other	93,456
Total expenses	1,036,679
Less: Fees waived and expense offset arrangement	(4,576)
Net expenses	1,032,103
Net investment income	3,157,181

### Realized and unrealized gain from investment securities and foreign currencies:

Net realized gain from:	
Investment securities	4,075,252
Foreign currencies	61,725
	4,136,977
Change in net unrealized appreciation of:	
Investment securities	19,372,158
Foreign currencies	1,930
	19,374,088
Net gain from investment securities and foreign currencies	23,511,065
Net increase in net assets resulting from operations	\$26,668,246

See accompanying notes which are an integral part of the financial statements.

# Statement of Changes in Net Assets

For the years ended December 31, 2004 and 2003

	2004	2003
<b>Operations:</b>		
Net investment income	\$ 3,157,181	\$ 1,222,923
Net realized gain from investment securities, foreign currencies and foreign currency contracts	4,136,977	142,852
Change in net unrealized appreciation of investment securities and foreign currencies	19,374,088	6,184,975
Net increase in net assets resulting from operations	26,668,246	7,550,750
Less distributions to shareholders from net investment income-Series I	(1,790,572)	(670,647)
Share transactions—net:		
Series I	72,272,573	24,426,328
Series II	494,954	—
Net increase in net assets resulting from share transactions	72,767,527	24,426,328
Net increase in net assets	97,645,201	31,306,431
<b>Net assets:</b>		
Beginning of year	62,510,422	31,203,991
End of year (including undistributed net investment income of \$2,579,006 and \$1,194,003, respectively)	\$160,155,623	\$62,510,422

See accompanying notes which are an integral part of the financial statements.

# Notes to Financial Statements

December 31, 2004

## NOTE 1—Significant Accounting Policies

AIM V.I. Utilities Fund, formerly INVESCO VIF-Utilities Fund, (the “Fund”) is a series portfolio of AIM Variable Insurance Funds (the “Trust”). The Trust is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end series management investment company consisting of twenty-eight separate portfolios. The Fund currently offers two classes of shares, Series I and Series II, both of which are offered to insurance company separate accounts funding variable annuity contracts and variable life insurance policies (“variable products”). Matters affecting each portfolio or class will be voted on exclusively by the shareholders of such portfolio or class. Current Securities and Exchange Commission (“SEC”) guidance, however, requires participating insurance companies offering separate accounts to vote shares proportionally in accordance with the instructions of the contract owners whose investments are funded by shares of each portfolio or class. The assets, liabilities and operations of each portfolio are accounted for separately. Information presented in these financial statements pertains only to the Fund. On April 30, 2004, the Fund was restructured from a separate series of INVESCO Variable Investment Funds, Inc. to a new series portfolio of the Trust.

The Fund’s investment objective is to seek capital growth and current income. Each company listed in the Schedule of Investments is organized in the United States of America unless otherwise noted.

Under the Trust’s organizational documents, each Trustee, officer, employee or other agent of the Trust (including the Trust’s investment manager) is indemnified against certain liabilities that may arise out of performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts that contain a variety of indemnification clauses. The Fund’s maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund has not had prior claims or losses pursuant to these contracts.

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 amounts of 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 those estimates. The following is a summary of the significant accounting policies followed by the Fund in the preparation of its financial statements.

### A. Security Valuations — Securities, including restricted securities, are valued according to the following policy.

A security listed or traded on an exchange (except convertible bonds) is valued at its last sales price as of the close of the customary trading session on the exchange where the security is principally traded, or lacking any sales on a particular day, the security is valued at the closing bid price on that day. Each security traded in the over-the-counter market (but not securities reported on the NASDAQ National Market System) is valued on the basis of prices furnished by independent pricing services or market makers. Each security reported on the NASDAQ National Market System is valued at the NASDAQ Official Closing Price (“NOCP”) as of the close of the customary trading session on the valuation date or absent a NOCP, at the closing bid price.

Futures contracts are valued at the final settlement price set by an exchange on which they are principally traded. Listed options are valued at the mean between the last bid and the ask prices from the exchange on which they are principally traded. Options not listed on an exchange are valued by an independent source at the mean between the last bid and ask prices. For purposes of determining net asset value per share, futures and option contracts generally will be valued 15 minutes after the close of the customary trading session of the New York Stock Exchange (“NYSE”).

Investments in open-end registered investment companies and closed-end registered investment companies that do not trade on an exchange are valued at the end of day net asset value per share. Investments in closed-end registered investment companies that trade on an exchange are valued at the last sales price as of the close of the customary trading session on the exchange where the security is principally traded.

Debt obligations (including convertible bonds) are fair valued using an evaluated quote provided by an independent pricing service. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as institution-size trading in similar groups of securities, developments related to specific securities, dividend rate, yield, quality, type of issue, coupon rate, maturity, individual trading characteristics and other market data. Short-term obligations having 60 days or less to maturity and commercial paper are valued at amortized cost which approximates market value.

Securities for which market prices are not provided by any of the above methods are valued based upon quotes furnished by independent sources and are valued at the last bid price in the case of equity securities and in the case of debt obligations, the mean between the last bid and asked prices.

Foreign securities (including foreign exchange contracts) are converted into U.S. dollar amounts using the applicable exchange rates as of the close of the NYSE. Generally, trading in foreign securities is substantially completed each day at various times prior to the close of the NYSE. The values of such securities used in computing the net asset value of the Fund’s shares are determined as of the close of the respective markets. Events affecting the values of such foreign securities may occur between the times at which the particular foreign market closes and the close of the customary trading session of the NYSE which would not ordinarily be reflected in the computation of the Fund’s net asset value. If the event is likely to have affected the closing price of the security, the security will be valued at fair value in good faith using procedures approved by the Board of Trustees. Adjustments to closing prices to reflect fair value may also be based on a screening process of an independent pricing service to indicate the degree of certainty, based on historical data, that the closing price in the principal market where a foreign security trades is not the current market value as of the close of the NYSE. Foreign securities meeting the approved degree of certainty that the price is not reflective of current market value will be priced at the indication of fair value from the independent pricing service. Multiple factors may be considered by the independent pricing service in determining adjustments to reflect fair value and may include information relating to sector indices, ADRs, domestic and foreign index futures and exchange-traded funds.

Securities for which market quotations are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust's officers following procedures approved by the Board of Trustees. Issuer specific events, market trends, bid/ask quotes of brokers and information providers and other market data may be reviewed in the course of making a good faith determination of a security's fair value.

**B. Securities Transactions and Investment Income** — Securities transactions are accounted for on a trade date basis. Realized gains or losses on sales are computed on the basis of specific identification of the securities sold. Interest income is recorded on the accrual basis from settlement date. Dividend income is recorded on the ex-dividend date. Bond premiums and discounts are amortized and/or accreted for financial reporting purposes.

Brokerage commissions and mark ups are considered transaction costs and are recorded as an increase to the cost basis of securities purchased and/or a reduction of proceeds on a sale of securities. Such transaction costs are included in the determination of realized and unrealized gain (loss) from investment securities reported in the Statement of Operations and the Statement of Changes in Net Assets and the realized and unrealized net gains (losses) on securities per share in the Financial Highlights. Transaction costs are included in the calculation of the Fund's net asset value and, accordingly, they reduce the Fund's total returns. These transaction costs are not considered operating expenses and are not reflected in net investment income reported in the Statement of Operations and Statement of Changes in Net Assets, or the net investment income per share and ratios of expenses and net investment income reported in the Financial Highlights, nor are they limited by any expense limitation arrangements between the Fund and the advisor.

The Fund allocates income and realized and unrealized capital gains and losses to a class based on the relative net assets of each class.

**C. Distributions** — Distributions from income and net realized capital gain, if any, are generally paid to separate accounts of participating insurance companies annually and recorded on ex-dividend date.

**D. Federal Income Taxes** — The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and, as such, will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) which is distributed to shareholders. Therefore, no provision for federal income taxes is recorded in the financial statements.

**E. Expenses** — Fees provided for under the Rule 12b-1 plan of a particular class of the Fund and which are directly attributable to that class are charged to the operations of such class. All other expenses are allocated among the classes based on relative net assets.

**F. Repurchase Agreements** — The Fund may enter into repurchase agreements. Collateral on repurchase agreements, including the Fund's pro-rata interest in joint repurchase agreements, is taken into possession by the Fund upon entering into the repurchase agreement. Eligible securities for collateral are U.S. Government Securities, U.S. Government Agency Securities and/or Investment Grade Debt Securities. Collateral consisting of U.S. Government Securities and U.S. Government Agency Securities is marked to market daily to ensure its market value is at least 102% of the sales price of the repurchase agreement. Collateral consisting of Investment Grade Debt Securities is marked to market daily to ensure its market value is at least 105% of the sales price of the repurchase agreement. The investments in some repurchase agreements, pursuant to an exemptive order from the Securities and Exchange Commission, are through participation with other mutual funds, private accounts and certain non-registered investment companies managed by the investment advisor or its affiliates ("Joint repurchase agreements"). If the seller of a repurchase agreement fails to repurchase the security in accordance with the terms of the agreement, the Fund might incur expenses in enforcing its rights, and could experience losses, including a decline in the value of the underlying security and loss of income.

**G. Foreign Currency Translations** — Foreign currency is valued at the close of the NYSE based on quotations posted by banks and major currency dealers. Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at date of valuation. Purchases and sales of portfolio securities (net of foreign taxes withheld on disposition) and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Fund does not separately account for the portion of the results of operations resulting from changes in foreign exchange rates on investments and the fluctuations arising from changes in market prices of securities held. The combined results of changes in foreign exchange rates and the fluctuation of market prices on investments (net of estimated foreign tax withholding) are included with the net realized and unrealized gain or loss from investments in the Statement of Operations. Reported net realized foreign currency gains or losses arise from, (i) sales of foreign currencies, (ii) currency gains or losses realized between the trade and settlement dates on securities transactions, and (iii) the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign currency gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities at fiscal period end, resulting from changes in exchange rates.

**H. Foreign Currency Contracts** — A foreign currency contract is an obligation to purchase or sell a specific currency for an agreed-upon price at a future date. The Fund may enter into a foreign currency contract to attempt to minimize the risk to the Fund from adverse changes in the relationship between currencies. The Fund may also enter into a foreign currency contract for the purchase or sale of a security denominated in a foreign currency in order to "lock in" the U.S. dollar price of that security. The Fund could be exposed to risk if counterparties to the contracts are unable to meet the terms of their contracts or if the value of the foreign currency changes unfavorably.

## **NOTE 2—Advisory Fees and Other Fees Paid to Affiliates**

The Trust has entered into a master investment advisory agreement with A I M Advisors, Inc. ("AIM"). Under the terms of the investment advisory agreement, the Fund pays an advisory fee to based on the annual rate of 0.60% of the Fund's average daily net assets. For the period May 1, 2004 through December 31, 2004, the Fund paid advisory fees to AIM of \$479,175. Prior to May 1, 2004, the Trust had an investment advisory agreement with INVESCO Funds Group, Inc. ("IFG"). For the period January 1, 2004 through April 30, 2004, the Fund paid advisory fees under similar terms to IFG of \$135,194. AIM has contractually agreed to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual operating expenses (excluding certain items discussed below) of each Series to 1.30% of average daily net assets, through April 30, 2006. Prior to May 1, 2004, AIM had agreed to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual operating expenses (excluding certain items discussed below) of each Series to 1.15% of average daily net assets. In determining the advisor's obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the total annual fund operating



expenses to exceed the limit stated above: (i) Rule 12b-1 plan fees, if any; (ii) interest; (iii) taxes; (iv) dividend expense on short sales; (v) extraordinary items (these are expenses that are not anticipated to arise from the Fund's day-to-day operations), or items designated as such by the Fund's Board of Trustees; (vi) expenses related to a merger or reorganization, as approved by the Fund's Board of Trustees; and (vii) expenses that the Fund has incurred but did not actually pay because of an expense offset arrangement. Currently, the only expense offset arrangements from which the Fund benefits are in the form of credits that the Fund receives from banks where the Fund or its transfer agent has deposit accounts in which it holds uninvested cash. Those credits are used to pay certain expenses incurred by the Fund. AIM did not waive fees and/or reimburse expenses during the period under this expense limitation. Further, AIM has voluntarily agreed to waive advisory fees of the Fund in the amount of 25% of the advisory fee AIM receives from the affiliated money market funds on investments by the Fund in such affiliated money market funds. Voluntary fee waivers or reimbursements may be modified or discontinued at any time upon consultation with the Board of Trustees without further notice to investors. For the year ended December 31, 2004, AIM waived fees of \$3,095.

The Fund, pursuant to a master administrative services agreement with AIM, has agreed to pay AIM a fee for costs incurred in providing accounting services and certain administrative services to the Fund and to reimburse AIM for administrative services fees paid to insurance companies that have agreed to provide administrative services to the participants of separate accounts. Pursuant to such agreement for the period May 1, 2004 through December 31, 2004, AIM was paid \$214,424, of which AIM retained \$33,470 for services provided by AIM. Prior to May 1, 2004, the Fund had an administrative services agreement with IFG. For the period January 1, 2004 through April 30, 2004, under similar terms, IFG was paid \$63,016 for such services, of which IFG retained \$6,686 for services provided by IFG.

The Fund, pursuant to a transfer agency and service agreement, has agreed to pay AIM Investment Services, Inc. ("AISI") a fee for providing transfer agency and shareholder services to the Fund and reimburse AISI for certain expenses incurred by AISI in the course of providing such services. For the year ended December 31, 2004, the Fund paid AISI \$14,046.

The Trust has entered into a master distribution agreement with AIM Distributors, Inc. ("AIM Distributors") to serve as the distributor for the Fund. The Trust has adopted a plan pursuant to Rule 12b-1 under the 1940 Act with respect to the Fund's Series II shares (the "Plan"). The Fund, pursuant to the Plan, pays AIM Distributors compensation at the annual rate of 0.25% of the Fund's average daily net assets of Series II shares. Of this amount, up to 0.25% of the average daily net assets of the Series II shares may be paid to insurance companies who furnish continuing personal shareholder services to customers who purchase and own Series II shares of the Fund. AIM Distributors has contractually agreed to reimburse the Fund's Rule 12b-1 distribution plan fees to the extent necessary to limit total annual fund operating expenses (excluding items (ii) through (vii) discussed above) of Series II shares to 1.45% of average daily net assets, through April 30, 2006. AIM Distributors did not reimburse fees during the period under this expense limitation. Pursuant to the Plan, for the period April 30, 2004 (date sales commenced) through December 31, 2004, the Series II shares paid \$848.

Certain officers and trustees of the Trust are also officers and directors of AIM, AISI and/or AIM Distributors.

### NOTE 3—Investments in Affiliates

The Fund is permitted, pursuant to an exemptive order from the SEC and approved procedures by the Board of Trustees, to invest daily available cash balances in affiliated money market funds. The Fund and the money market fund below have the same investment advisor and therefore, are considered to be affiliated. The table below shows the transactions in and earnings from investments in an affiliated money market fund for the year ended December 31, 2004.

#### Investments of Daily Available Cash Balances:

Fund	Market Value 12/31/03	Purchases at Cost	Proceeds from Sales	Unrealized Appreciation (Depreciation)	Market Value 12/31/04	Dividend Income	Realized Gain (Loss)
Premier Portfolio	\$3,151,179	\$89,764,418	\$(85,963,943)	\$ —	\$6,951,654	\$97,854	\$ —

### NOTE 4—Expense Offset Arrangement

The expense offset arrangement is comprised of custodian credits which result from periodic overnight cash balances at the custodian. For the year ended December 31, 2004, the Fund received credits in custodian fees of \$1,481 under an expense offset arrangement, which resulted in a reduction of the Fund's total expenses of \$1,481.

### NOTE 5—Trustees' Fees

Trustees' fees represent remuneration paid to each Trustee of the Trust who is not an "interested person" of AIM. Trustees have the option to defer compensation payable by the Trust. Those Trustees who defer compensation have the option to select various AIM Funds in which their deferral accounts shall be deemed to be invested.

Current Trustees are eligible to participate in a retirement plan that provides for benefits to be paid upon retirement to Trustees over a period of time based on the number of years of service. The Fund may have certain former Trustees that also participate in a retirement plan and receive benefits under such plan.

Obligations under the deferred compensation and retirement plans represent unsecured claims against the general assets of the Fund.

During the year ended December 31, 2004, the Fund paid legal fees of \$1,963 for services rendered by Kramer, Levin, Naftalis & Frankel LLP as counsel to the Independent Trustees. A member of that firm is a Trustee of the Trust.

## NOTE 6—Borrowings

Pursuant to an exemptive order from the SEC, the Fund may participate in an interfund lending facility that AIM has established for temporary borrowings by the AIM Funds. An interfund loan will be made under this facility only if the loan rate (an average of the rate available on bank loans and the rate available on investments in overnight repurchase agreements) is favorable to both the lending fund and the borrowing fund. A loan will be secured by collateral if the Fund's aggregate borrowings from all sources exceeds 10% of the Fund's total assets. To the extent that the loan is required to be secured by collateral, the collateral is marked to market daily to ensure that the market value is at least 102% of the outstanding principal value of the loan.

The Fund is a participant in an uncommitted unsecured revolving credit facility with State Street Bank and Trust Company ("SSB"). The Fund may borrow up to the lesser of (i) \$125,000,000, or (ii) the limits set by its prospectus for borrowings. The Fund and other funds advised by AIM which are parties to the credit facility can borrow on a first come, first served basis. Principal on each loan outstanding shall bear interest at the bid rate quoted by SSB at the time of the request for the loan.

During the year ended December 31, 2004, the Fund did not borrow or lend under the interfund lending facility or borrow under the uncommitted unsecured revolving credit facility.

Additionally, the Fund is permitted to temporarily carry a negative or overdrawn balance in its account with SSB, the custodian bank. To compensate the custodian bank for such overdrafts, the overdrawn Fund may either (i) leave funds in the account so the custodian can be compensated by earning the additional interest; or (ii) compensate by paying the custodian bank. In either case, the custodian bank will be compensated at an amount equal to the Federal Funds rate plus 100 basis points.

## NOTE 7—Distributions to Shareholders and Tax Components of Net Assets

### Distributions to Shareholders:

The tax character of distributions paid during the years ended December 31, 2004 and 2003 was as follows:

	2004	2003
Distributions paid from ordinary income	\$1,790,572	\$670,647

### Tax Components of Net Assets:

As of December 31, 2004, the components of net assets on a tax basis were as follows:

	2004
Undistributed ordinary income	\$ 2,634,305
Unrealized appreciation—investments	26,402,725
Temporary book/tax differences	(49,708)
Capital loss carryforward	(9,282,192)
Shares of beneficial interest	140,450,493
Total net assets	\$160,155,623

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is due to differences in the timing of recognition of gains and losses on investments for tax and book purposes. The Fund's unrealized appreciation (depreciation) difference is attributable primarily to the tax deferral of losses on wash sales, the treatment of corporate actions and the treatment of defaulted bonds. The tax-basis unrealized appreciation (depreciation) on investments amount includes appreciation on foreign currencies of \$3,566.

The temporary book/tax differences are a result of timing differences between book and tax recognition of income and/or expenses. The Fund's temporary book/tax differences are the result of the trustee deferral of compensation and retirement plan expenses.

Capital loss carryforward is calculated and reported as of a specific date. Results of transactions and other activity after that date may affect the amount of capital loss carryforward actually available for the Fund to utilize. The ability to utilize capital loss carryforward in the future may be limited under the Internal Revenue Code and related regulations based on the results of future transactions. Under these limitation rules, the Fund is limited as of December 31, 2004 to utilizing \$5,603,621 of capital loss carryforward in the fiscal year ended December 31, 2005.

The Fund utilized \$1,198,507 of capital loss carryforward in the current period to offset net realized capital gain for federal income tax purposes. The Fund has a capital loss carryforward as of December 31, 2004 which expires as follows:

Expiration	Capital Loss Carryforward*
December 31, 2008	\$1,361,470
December 31, 2009	7,920,722
Total capital loss carryforward	\$9,282,192

\* Capital loss carryforward as of the date listed above is reduced for limitations, if any, to the extent required by the Internal Revenue Code.

## NOTE 8—Investment Securities

The aggregate amount of investment securities (other than short-term securities and money market funds) purchased and sold by the Fund during the year ended December 31, 2004 was \$100,455,986 and \$43,988,943, respectively.

Receivable for investments matured represents the estimated proceeds to the fund by Candescent Technologies Corp. which is in default with respect to the principal payments on \$20,233,000 par value, Senior Unsecured Guaranteed Subordinated Debentures, 8.00%, which were due May 1, 2003. This estimate was determined in accordance with the fair valuation procedures authorized by the Board of Trustees. Unrealized appreciation (depreciation) at December 31, 2004 was \$(419,349).

### Unrealized Appreciation (Depreciation) of Investment Securities on a Tax Basis

Aggregate unrealized appreciation of investment securities	\$27,005,259
Aggregate unrealized (depreciation) of investment securities	(186,751)
Net unrealized appreciation of investment securities	\$26,818,508

Cost of investments for tax purposes is \$133,399,646.

## NOTE 9—Reclassification of Permanent Differences

Primarily as a result of differing book/tax treatment of foreign currency transactions and redomestication expenses, on December 31, 2004, undistributed net investment income was increased by \$67,699, undistributed net realized gain (loss) was decreased by \$61,722 and shares of beneficial interest decreased by \$5,977. Further, as a result of tax deferrals acquired in the reorganization of AIM V.I. Global Utilities Fund into the Fund, undistributed net investment income was decreased by \$49,305, undistributed net realized gain (loss) was decreased by \$5,754,529 and shares of beneficial interest was increased by \$5,803,834. This reclassification had no effect on the net assets of the Fund.

## NOTE 10—Share Information

### Changes in Shares Outstanding<sup>(a)</sup>

	Year ended December 31,			
	2004		2003	
	Shares	Amount	Shares	Amount
Sold:				
Series I	7,260,883	\$ 98,809,827	3,270,616	\$ 38,622,032
Series II <sup>(b)</sup>	9,123	123,917	—	—
Issued as reinvestment of dividends:				
Series I	141,547	1,790,572	53,910	670,647
Issued in connection with acquisitions: <sup>(c)</sup>				
Series I	1,651,306	20,891,460	—	—
Series II <sup>(b)</sup>	35,261	445,966	—	—
Reacquired:				
Series I	(3,656,840)	(49,219,286)	(1,294,779)	(14,866,351)
Series II <sup>(b)</sup>	(5,742)	(74,929)	—	—
	5,435,538	\$ 72,767,527	2,029,747	\$ 24,426,328

<sup>(a)</sup> There are five entities that are each record owners of more than 5% of the outstanding shares of the Fund and in the aggregate they own 80% of the outstanding shares of the Fund. The Fund and the Fund's principal underwriter or advisor, are parties to participation agreements with these entities whereby these entities sell units of interest in separate accounts funding variable products that are invested in the Fund. The Fund, AIM and/or AIM affiliates may make payments to these entities, which are considered to be related to the Fund, for providing services to the Fund, AIM and/or AIM affiliates including but not limited to services such as, securities brokerage, third party record keeping and account servicing and administrative services. The Trust has no knowledge as to whether all or any portion of the shares owned of record by these shareholders are also owned beneficially.

<sup>(b)</sup> Series II shares commenced sales on April 30, 2004.

<sup>(c)</sup> As of the opening of business on April 30, 2004, the Fund acquired all of the net assets of AIM V.I. Global Utilities Fund pursuant to a plan of reorganization approved by the Trustees of the Fund on December 9, 2003 and AIM V.I. Global Utilities Fund shareholders on April 2, 2004. The acquisition was accomplished by a tax-free exchange of 1,686,567 shares of the Fund for 1,960,982 shares of AIM V.I. Global Utilities Fund outstanding as of the close of business on April 29, 2004. AIM V.I. Global Utilities Fund's net assets at that date of \$21,337,426, including \$1,651,275 of unrealized appreciation, were combined with those of the Fund. The aggregate net assets of the Fund immediately before the acquisition were \$69,390,372.

## NOTE 11—Financial Highlights

The following schedule presents financial highlights for a share of the Fund outstanding throughout the periods indicated.

	<b>Series I</b>				
	<b>Year ended December 31,</b>				
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Net asset value, beginning of period	\$ 12.95	\$ 11.16	\$ 14.08	\$ 21.06	\$ 20.97
Income from investment operations:					
Net investment income	0.42 <sup>(a)</sup>	0.33 <sup>(a)</sup>	0.19	0.00	0.17
Net gains (losses) on securities (both realized and unrealized)	2.57	1.60	(3.05)	(6.83)	0.87
Total from investment operations	2.99	1.93	(2.86)	(6.83)	1.04
Less distributions:					
Dividends from net investment income	(0.33)	(0.14)	(0.06)	(0.07)	(0.03)
Distributions from net realized gains	—	—	—	(0.08)	(0.92)
Total distributions	(0.33)	(0.14)	(0.06)	(0.15)	(0.95)
Net asset value, end of period	\$ 15.61	\$ 12.95	\$ 11.16	\$ 14.08	\$ 21.06
Total return <sup>(b)</sup>	23.65%	17.38%	(20.32)%	(32.41)%	5.28%
Ratios/supplemental data:					
Net assets, end of period (000s omitted)	\$159,554	\$62,510	\$31,204	\$20,947	\$12,300
Ratio of expenses to average net assets	1.01% <sup>(c)</sup>	1.08%	1.15%	1.15%	1.22%
Ratio of net investment income to average net assets	3.09% <sup>(c)</sup>	2.84%	2.59%	1.13%	0.94%
Portfolio turnover rate	52%	58%	102%	33%	50%

(a) Calculated using average shares outstanding.

(b) Includes adjustments in accordance with accounting principles generally accepted in the United States of America and as such, the net asset value for financial reporting purposes and the returns based upon those net asset values may differ from the net asset value and returns for shareholder transactions. Total returns do not reflect charges assessed in connection with a variable product, which if included would reduce total returns.

(c) Ratios are based on average daily net assets of \$102,055,423.

	<b>Series II</b>
	<b>April 30, 2004</b>
	<b>(Date sales commenced) to December 31, 2004</b>
Net asset value, beginning of period	\$12.63
Income from investment operations:	
Net investment income	0.26 <sup>(a)</sup>
Net gains on securities (both realized and unrealized)	2.68
Total from investment operations	2.94
Net asset value, end of period	\$15.57
Total return <sup>(b)</sup>	23.28%
Ratios/supplemental data:	
Net assets, end of period (000s omitted)	\$ 602
Ratio of expenses to average net assets	1.28% <sup>(c)</sup>
Ratio of net investment income to average net assets	2.82% <sup>(c)</sup>
Portfolio turnover rate <sup>(d)</sup>	52%

(a) Calculated using average shares outstanding.

(b) Includes adjustments in accordance with accounting principles generally accepted in the United States of America and as such, the net asset value for financial reporting purposes and the returns based upon those net asset values may differ from the net asset value and returns for shareholder transactions. Total returns are not annualized for periods less than one year and do not reflect charges assessed in connection with a variable product, which if included would reduce the total returns.

(c) Ratios are annualized and based on average daily net assets of \$504,858.

(d) Not annualized for periods less than one year.

## **NOTE 12—Legal Proceedings**

*Terms used in the Legal Proceedings Note are defined terms solely for the purpose of this note.*

### **Settled Enforcement Actions and Investigations Related to Market Timing**

On October 8, 2004, INVESCO Funds Group, Inc. (“IFG”) (the former investment advisor to certain AIM Funds) and A I M Advisors, Inc. (“AIM”) (the Fund’s investment advisor) reached final settlements with certain regulators, including without limitation the Securities and Exchange Commission (“SEC”), the New York Attorney General (“NYAG”) and the Colorado Attorney General (“COAG”), to resolve civil enforcement actions and investigations related to market timing activity and related issues in the AIM Funds, including those formerly advised by IFG. These regulators alleged, in substance, that IFG and AIM failed to disclose in the prospectuses for the AIM Funds that they advised and to the independent directors/trustees of such Funds that they had entered into certain arrangements permitting market timing of such Funds, thereby breaching their fiduciary duties to such Funds. As a result of the foregoing, the regulators alleged that IFG and AIM breached various Federal and state securities, business and consumer protection laws. On the same date, A I M Distributors, Inc. (“ADI”) (the distributor of the retail AIM Funds) reached a final settlement with the SEC to resolve an investigation relating to market timing activity and related issues in the AIM Funds. The SEC also alleged that ADI violated various Federal securities laws. The SEC also has settled related market timing enforcement actions brought against certain former officers and employees of IFG.

Under the terms of the settlements, IFG agreed to pay a total of \$325 million, of which \$110 million is civil penalties. Of this \$325 million total payment, half has been paid and the remaining half will be paid on or before December 31, 2005. AIM and ADI agreed to pay a total of \$50 million, of which \$30 million is civil penalties, all of which has been paid. The entire \$325 million IFG settlement payment will be made available for distribution to the shareholders of those AIM Funds that IFG formerly advised that were harmed by market timing activity, and the entire \$50 million settlement payment by AIM and ADI will be made available for distribution to the shareholders of those AIM Funds advised by AIM that were harmed by market timing activity, all as to be determined by an independent distribution consultant. The settlement payments will be distributed in accordance with a methodology to be determined by the independent distribution consultant, in consultation with AIM and the independent trustees of the AIM Funds and acceptable to the staff of the SEC. Under the settlements with the NYAG and COAG, AIM has agreed to reduce management fees on certain equity and balanced AIM Funds by \$15 million per year for the next five years, based upon effective fee rates and assets under management as of July 1, 2004, and not to increase certain management fees.

Under the terms of the settlements, AIM will make certain governance and compliance reforms, including maintaining an internal controls committee and retaining an independent compliance consultant and a corporate ombudsman. Also, commencing in 2007 and at least once every other year thereafter, AIM will undergo a compliance review by an independent third party. In addition, under the terms of the settlements, AIM has undertaken to cause the AIM Funds to operate in accordance with certain governance policies and practices, including retaining a full-time independent senior officer whose duties will include monitoring compliance and managing the process by which proposed management fees to be charged the AIM Funds are negotiated. Also, commencing in 2008 and not less than every fifth calendar year thereafter, the AIM Funds will hold shareholder meetings at which their Boards of Trustees will be elected.

At the request of the trustees of the AIM Funds, AMVESCAP PLC (“AMVESCAP”), the parent company of IFG and AIM, has agreed to pay expenses incurred by such Funds related to market timing matters.

The SEC has also settled market timing enforcement actions against Raymond R. Cunningham (the former president and chief executive officer of IFG and a former member of the board of directors of the AIM Funds formerly advised by IFG), Timothy J. Miller (the former chief investment officer and a former portfolio manager for IFG), Thomas A. Kolbe (the former national sales manager of IFG) and Michael D. Legoski (a former assistant vice president in IFG’s sales department). As part of these settlements, the SEC ordered these individuals to pay restitution and civil penalties in various amounts and prohibited them from associating with, or serving as an officer or director of, an investment advisor, broker, dealer and/or investment company, as applicable, for certain periods of time.

The payments made in connection with the above-referenced settlements by IFG, AIM and ADI will total approximately \$375 million (not including AIM’s agreement to reduce management fees on certain equity and balanced AIM Funds by \$15 million per year for the next five years, based upon effective fee rates and assets under management as of July 1, 2004). The manner in which the settlement payments will be distributed is unknown at the present time and will be determined by an independent distribution consultant appointed under the settlement agreements. Therefore, management of AIM and the Fund are unable at the present time to estimate the impact, if any, that the distribution of the settlement payments may have on the Fund or whether such distribution will have an impact on the Fund’s financial statements in the future.

At the present time, management of AIM and the Fund are unable to estimate the impact, if any, that the outcome of the Regulatory Inquiries and Pending Litigation described below may have on AIM, ADI or the Fund.

### **Regulatory Inquiries and Pending Litigation**

The mutual fund industry as a whole is currently subject to regulatory inquiries and litigation related to a wide range of issues. These issues include, among others, market timing activity, late trading, fair value pricing, excessive or improper advisory and/or distribution fees, mutual fund sales practices, including but not limited to revenue sharing and directed-brokerage arrangements, investments in securities of other registered investment companies, contractual plans, issues related to Section 529 college savings plans, procedures for locating lost security holders and participation in class action settlements.

As described more fully below, IFG and AIM are the subject of a number of ongoing regulatory inquiries and civil lawsuits related to one or more of the issues currently being scrutinized by various Federal and state regulators, including but not limited to those issues described above. Additional regulatory actions and/or civil lawsuits related to the above or other issues may be filed against the AIM Funds, IFG, AIM and/or related entities and individuals in the future. Additional regulatory inquiries related to the above or other issues also may be received by the AIM Funds, IFG, AIM and/or related entities and individuals in the future.

## **NOTE 12—Legal Proceedings (continued)**

### Ongoing Regulatory Inquiries Concerning IFG and AIM

IFG, certain related entities, certain of their current and former officers and/or certain of the AIM Funds formerly advised by IFG have received regulatory inquiries in the form of subpoenas or other oral or written requests for information and/or documents related to one or more of the following issues, some of which concern one or more such Funds: market timing activity, late trading, fair value pricing, excessive or improper advisory and/or distribution fees, mutual fund sales practices, including revenue sharing and directed-brokerage arrangements, and investments in securities of other registered investment companies. These regulators include the SEC, the NASD, Inc. (“NASD”), the Florida Department of Financial Services, the Attorney General of the State of West Virginia, the West Virginia Securities Commission and the Bureau of Securities of the State of New Jersey. IFG and certain of these other parties also have received more limited inquiries from the United States Department of Labor (“DOL”) and the United States Attorney’s Office for the Southern District of New York, some of which concern one or more of the AIM Funds formerly advised by IFG. IFG is providing full cooperation with respect to these inquiries.

AIM, certain related entities, certain of their current and former officers and/or certain of the AIM Funds have received regulatory inquiries in the form of subpoenas or other oral or written requests for information and/or documents related to one or more of the following issues, some of which concern one or more AIM Funds: market timing activity, late trading, fair value pricing, excessive or improper advisory and/or distribution fees, mutual fund sales practices, including revenue sharing and directed-brokerage arrangements, investments in securities of other registered investment companies, contractual plans, issues related to Section 529 college savings plans and procedures for locating lost securityholders. These regulators include the SEC, the NASD, the Department of Banking for the State of Connecticut, the Attorney General of the State of West Virginia, the West Virginia Securities Commission and the Bureau of Securities of the State of New Jersey. AIM and certain of these other parties also have received more limited inquiries from the SEC, the NASD, the DOL, the Internal Revenue Service, the United States Attorney’s Office for the Southern District of New York, the United States Attorney’s Office for the Central District of California, the United States Attorney’s Office for the District of Massachusetts, the Massachusetts Securities Division, the U.S. Postal Inspection Service and the Commodity Futures Trading Commission, some of which concern one or more AIM Funds. AIM is providing full cooperation with respect to these inquiries.

### Private Civil Actions Alleging Market Timing

Multiple civil lawsuits, including purported class action and shareholder derivative suits, have been filed against various parties (including, depending on the lawsuit, certain AIM Funds, IFG, AIM, AIM Management, AMVESCAP, certain related entities, certain of their current and former officers and/or certain unrelated third parties) making allegations that are similar in many respects to those in the settled regulatory actions brought by the SEC, the NYAG and the COAG concerning market timing activity in the AIM Funds. These lawsuits allege a variety of theories of recovery, including but not limited to: (i) violation of various provisions of the Federal and state securities laws; (ii) violation of various provisions of ERISA; (iii) breach of fiduciary duty; and/or (iv) breach of contract. These lawsuits were initiated in both Federal and state courts and seek such remedies as compensatory damages; restitution; injunctive relief; disgorgement of management fees; imposition of a constructive trust; removal of certain directors and/or employees; various corrective measures under ERISA; rescission of certain Funds’ advisory agreements; interest; and attorneys’ and experts’ fees.

All lawsuits based on allegations of market timing, late trading, and related issues have been transferred to the United States District Court for the District of Maryland (the “MDL Court”) for consolidated or coordinated pre-trial proceedings. Pursuant to an Order of the MDL Court, plaintiffs consolidated their claims for pre-trial purposes into three amended complaints against various AIM- and IFG-related parties: (i) a Consolidated Amended Class Action Complaint purportedly brought on behalf of shareholders of the AIM Funds; (ii) a Consolidated Amended Fund Derivative Complaint purportedly brought on behalf of the AIM Funds and fund registrants; and (iii) an Amended Class Action Complaint for Violations of the Employee Retirement Income Securities Act (“ERISA”) purportedly brought on behalf of participants in AMVESCAP’s 401(k) plan. The plaintiffs in one of the underlying lawsuits continue to seek remand of their lawsuit to state court.

### Private Civil Actions Alleging Improper Use of Fair Value Pricing

Multiple civil class action lawsuits have been filed against various parties (including, depending on the lawsuit, certain AIM Funds, IFG and/or AIM) alleging that certain AIM Funds inadequately employed fair value pricing. These lawsuits allege a variety of theories of recovery, including but not limited to: (i) violations of various provisions of the Federal securities laws; (ii) common law breach of duty; and (iii) common law negligence and gross negligence. These lawsuits have been filed in both Federal and state courts and seek such remedies as compensatory and punitive damages; interest; and attorneys’ fees and costs.

### Private Civil Actions Alleging Excessive Advisory and/or Distribution Fees

Multiple civil lawsuits, including purported class action and shareholder derivative suits, have been filed against various parties (including, depending on the lawsuit, IFG, AIM, INVESCO Institutional (N.A.), Inc. (“IINA”), ADI and/or INVESCO Distributors, Inc. (“INVESCO Distributors”)) alleging that the defendants charged excessive advisory and/or distribution fees and failed to pass on to shareholders the perceived savings generated by economies of scale. Certain of these lawsuits also allege that the defendants adopted unlawful distribution plans. These lawsuits allege a variety of theories of recovery, including but not limited to: (i) violation of various provisions of the Federal securities laws; (ii) breach of fiduciary duty; and/or (iii) breach of contract. These lawsuits have been filed in Federal courts and seek such remedies as damages; injunctive relief; rescission of certain Funds’ advisory agreements and distribution plans; interest; prospective relief in the form of reduced fees; and attorneys’ and experts’ fees. All of these lawsuits have been transferred to the United States District Court for the Southern District of Texas, Houston Division by order of the applicable United States District Court in which they were initially filed. The plaintiff in one of these lawsuits has challenged this order.

**NOTE 12—Legal Proceedings (continued)**

Private Civil Actions Alleging Improper Charging of Distribution Fees on Limited Offering Funds or Share Classes

Multiple civil lawsuits, including shareholder derivative suits, have been filed against various parties (including, depending on the lawsuit, IFG, AIM, ADI and/or certain of the trustees of the AIM Funds) alleging that the defendants breached their fiduciary duties by charging distribution fees while funds and/or specific share classes were closed generally to new investors and/or while other share classes of the same fund were not charged the same distribution fees. These lawsuits allege a variety of theories of recovery, including but not limited to: (i) violation of various provisions of the Federal securities laws; and (ii) breach of fiduciary duty. These lawsuits have been filed in Federal courts and seek such remedies as damages; injunctive relief; and attorneys' and experts' fees.

Private Civil Actions Alleging Improper Mutual Fund Sales Practices and Directed-Brokerage Arrangements

Multiple civil lawsuits, including purported class action and shareholder derivative suits, have been filed against various parties (including, depending on the lawsuit, AIM Management, IFG, AIM, AIM Investment Services, Inc. ("AIS") and/or certain of the trustees of the AIM Funds) alleging that the defendants improperly used the assets of the AIM Funds to pay brokers to aggressively promote the sale of the AIM Funds over other mutual funds and that the defendants concealed such payments from investors by disguising them as brokerage commissions. These lawsuits allege a variety of theories of recovery, including but not limited to: (i) violation of various provisions of the Federal securities laws; (ii) breach of fiduciary duty; and (iii) aiding and abetting a breach of fiduciary duty. These lawsuits have been filed in Federal courts and seek such remedies as compensatory and punitive damages; rescission of certain Funds' advisory agreements and distribution plans and recovery of all fees paid; an accounting of all fund-related fees, commissions and soft dollar payments; restitution of all unlawfully or discriminatorily obtained fees and charges; and attorneys' and experts' fees.

Private Civil Action Alleging Failure to Ensure Participation in Class Action Settlements

A civil lawsuit, purporting to be a class action lawsuit, has been filed against AIM, IINA, A I M Capital Management, Inc. and the trustees of the AIM Funds alleging that the defendants breached their fiduciary duties by failing to ensure that the AIM Funds participated in class action settlements in which the AIM Funds were eligible to participate. This lawsuit alleges as theories of recovery: (i) violation of various provisions of the Federal securities laws; (ii) common law breach of fiduciary duty; and (iii) common law negligence. This lawsuit has been filed in Federal court and seeks such remedies as compensatory and punitive damages; forfeiture of all commissions and fees paid by the class of plaintiffs; and costs and attorneys' fees.

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As a result of the matters discussed above, investors in the AIM Funds might react by redeeming their investments. This might require the Funds to sell investments to provide for sufficient liquidity and could also have an adverse effect on the investment performance of the Funds.

# Report of Independent Registered Public Accounting Firm

To the Board of Trustees  
and Shareholders of AIM V.I. Utilities Fund:

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 AIM V.I. Utilities Fund, formerly known as INVESCO VIF-Utilities Fund, (one of the funds constituting AIM Variable Insurance Funds, formerly known as INVESCO Variable Investment Funds, Inc., hereafter referred to as the "Fund") at December 31, 2004, 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 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 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards 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, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 11, 2005  
Houston, Texas



## Proxy Results (Unaudited)

A Special Meeting of Shareholders of INVESCO VIF-Utilities Fund (now known as AIM V.I. Utilities Fund), (“Fund”), an investment portfolio of INVESCO Variable Investment Funds, Inc. (“Company”), (now known as AIM Variable Insurance Funds), a Delaware statutory trust, was held April 2, 2004. The meeting was held for the following purposes:

- (1)\* To elect sixteen individuals to the Board of INVESCO Variable Investment Funds, Inc. (“Company”), each of whom will serve until his or her successor is elected and qualified: Bob R. Baker, Frank S. Bayley, James T. Bunch, Bruce L. Crockett, Albert R. Dowden, Edward K. Dunn, Jr., Jack M. Fields, Carl Frischling, Robert H. Graham, Gerald J. Lewis, Prema Mathai-Davis, Lewis F. Pennock, Ruth H. Quigley, Louis S. Sklar, Larry Soll, Ph D. and Mark H. Williamson.
- (2) To approve a new Investment Advisory Agreement with A I M Advisors, Inc.
- (3) To approve a new Sub-Advisory Agreement between A I M Advisors, Inc. and INVESCO Institutional (N.A.), Inc.
- (4)\* To approve an Agreement and Plan of Reorganization to redomesticate each series portfolio of Company as a new series portfolio of AIM Variable Insurance Funds, an existing Delaware statutory trust.

The results of the voting on the above matters were as follows:

Trustees/Matter	Votes For	Withholding Authority	
(1)* Bob R. Baker . . . . .	93,545,754	4,458,528	
Frank S. Bayley . . . . .	93,653,161	4,351,121	
James T. Bunch . . . . .	93,688,828	4,315,454	
Bruce L. Crockett . . . . .	93,737,421	4,266,861	
Albert R. Dowden . . . . .	93,716,317	4,287,965	
Edward K. Dunn, Jr. . . . .	93,623,043	4,381,239	
Jack M. Fields . . . . .	93,746,928	4,257,354	
Carl Frischling . . . . .	93,654,819	4,349,463	
Robert H. Graham . . . . .	93,716,756	4,287,526	
Gerald J. Lewis . . . . .	93,594,018	4,410,264	
Prema Mathai-Davis . . . . .	93,482,582	4,521,700	
Lewis F. Pennock . . . . .	93,664,049	4,340,233	
Ruth H. Quigley . . . . .	93,518,516	4,485,766	
Louis S. Sklar . . . . .	93,623,163	4,381,119	
Larry Soll, Ph.D. . . . .	93,521,612	4,482,670	
Mark H. Williamson . . . . .	93,642,072	4,362,210	
Matter	Votes For	Votes Against	Withheld/ Abstentions
(2) Approval of a new Investment Advisory Agreement with A I M Advisors, Inc. . . . .	4,401,770	65,324	343,234
(3) Approval of a new Sub-Advisory Agreement between A I M Advisors, Inc. and INVESCO Institutional (N.A.), Inc. . . .	4,379,458	73,048	357,822
(4)* Approval of an Agreement and Plan of Reorganization to redomesticate each series portfolio of Company as a new series portfolio of AIM Variable Insurance Funds, an existing Delaware statutory trust . . . . .	88,123,016	3,299,467	6,581,799

\* Proposal required approval by a combined vote of all the portfolios of INVESCO Variable Investment Funds, Inc.

# Trustees and Officers

As of December 31, 2004

The address of each trustee and officer of AIM Variable Insurance Funds (the "Trust"), is 11 Greenway Plaza, Suite 100, Houston, Texas 77046. Each trustee oversees 114 portfolios in the AIM Funds complex. The trustees serve for the life of the Trust, subject to their earlier death, incapacitation, resignation, retirement or removal as more specifically provided in the Trust's organizational documents. Column two below includes length of time served with predecessor entities, if any.

Name, Year of Birth and Position(s) Held with the Trust	Trustee and/or Officer Since	Principal Occupation(s) During Past 5 Years	Other Directorship(s) Held by Trustee
<b>Interested Persons</b>			
Robert H. Graham <sup>1</sup> — 1946 Trustee, Vice Chair and President	1993	Director and Chairman, A I M Management Group Inc. (financial services holding company); Director and Vice Chairman, AMVESCAP PLC and Chairman, AMVESCAP PLC — AIM Division (parent of AIM and a global investment management firm)  Formerly: President and Chief Executive Officer, A I M Management Group Inc.; Director, Chairman and President, A I M Advisors, Inc. (registered investment advisor); Director and Chairman, A I M Capital Management, Inc. (registered investment advisor), A I M Distributors, Inc. (registered broker dealer), AIM Investment Services, Inc., (registered transfer agent), and Fund Management Company (registered broker dealer); and Chief Executive Officer, AMVESCAP PLC — Managed Products	None
Mark H. Williamson <sup>2</sup> — 1951 Trustee and Executive Vice President	2003	Director, President and Chief Executive Officer, A I M Management Group Inc. (financial services holding company); Director, Chairman and President, A I M Advisors, Inc. (registered investment advisor); Director, A I M Capital Management, Inc. (registered investment advisor) and A I M Distributors, Inc. (registered broker dealer); Director and Chairman, AIM Investment Services, Inc. (registered transfer agent), Fund Management Company (registered broker dealer) and INVESCO Distributors Inc. (registered broker dealer); and Chief Executive Officer, AMVESCAP PLC — AIM Division (parent of AIM and a global investment management firm)  Formerly: Director, Chairman, President and Chief Executive Officer, INVESCO Funds Group, Inc.; President and Chief Executive Officer, INVESCO Distributors, Inc.; Chief Executive Officer, AMVESCAP PLC — Managed Products; Chairman and Chief Executive Officer of NationsBanc Advisors, Inc.; and Chairman of NationsBanc Investments, Inc.	None
<b>Independent Trustees</b>			
Bruce L. Crockett <sup>3</sup> — 1944 Trustee and Chair	1993	Chairman, Crockett Technology Associates (technology consulting company)	ACE Limited (insurance company); and Captaris, Inc. (unified messaging provider)
Bob R. Baker — 1936 Trustee	2004	Retired  Formerly: President and Chief Executive Officer, AMC Cancer Research Center; and Chairman and Chief Executive Officer, First Columbia Financial Corporation	None
Frank S. Bayley — 1939 Trustee	2001	Retired  Formerly: Partner, law firm of Baker & McKenzie	Badgley Funds, Inc. (registered investment company)
James T. Bunch — 1942 Trustee	2004	Co-President and Founder, Green, Manning & Bunch Ltd., (investment banking firm); and Director, Policy Studies, Inc. and Van Gilder Insurance Corporation	None
Albert R. Dowden — 1941 Trustee	2000	Director of a number of public and private business corporations, including the Boss Group Ltd. (private investment and management) and Magellan Insurance Company  Formerly: Director, President and Chief Executive Officer, Volvo Group North America, Inc.; Senior Vice President, AB Volvo; and director of various affiliated Volvo companies	Cortland Trust, Inc. (Chairman) (registered investment company); Annuity and Life Re (Holdings), Ltd. (insurance company)
Edward K. Dunn, Jr. — 1935 Trustee	1998	Retired  Formerly: Chairman, Mercantile Mortgage Corp.; President and Chief Operating Officer, Mercantile-Safe Deposit & Trust Co.; and President, Mercantile Bankshares Corp.	None
Jack M. Fields — 1952 Trustee	1997	Chief Executive Officer, Twenty First Century Group, Inc. (government affairs company) and Texana Timber LP (sustainable forestry company)	Administaff, and Discovery Global Education Fund (non-profit)

<sup>1</sup> Mr. Graham is considered an interested person of the Trust because he is a director of AMVESCAP PLC, parent of the advisor to the Trust. Prior to October 4, 2004, Mr. Graham served as Chairman of the Board of Trustees of the Trust.

<sup>2</sup> Mr. Williamson is considered an interested person of the Trust because he is an officer and a director of the advisor to, and a director of the principal underwriter of, the Trust.

<sup>3</sup> Mr. Crockett was elected Chair of the Board of Trustees of the Trust effective October 4, 2004.

# Trustees and Officers (continued)

As of December 31, 2004

The address of each trustee and officer of AIM Variable Insurance Funds (the "Trust"), is 11 Greenway Plaza, Suite 100, Houston, Texas 77046. Each trustee oversees 114 portfolios in the AIM Funds complex. The trustees serve for the life of the Trust, subject to their earlier death, incapacitation, resignation, retirement or removal as more specifically provided in the Trust's organizational documents. Column two below includes length of time served with predecessor entities, if any.

Name, Year of Birth and Position(s) Held with the Trust	Trustee and/or Officer Since	Principal Occupation(s) During Past 5 Years	Other Directorship(s) Held by Trustee
Carl Frischling — 1937 Trustee	1993	Partner, law firm of Kramer Levin Naftalis and Frankel LLP	Cortland Trust, Inc. (registered investment company)
Gerald J. Lewis — 1933 Trustee	2004	Chairman, Lawsuit Resolution Services (California) Formerly: Associate Justice of the California Court of Appeals	General Chemical Group, Inc.
Prema Mathai-Davis — 1950 Trustee	1998	Formerly: Chief Executive Officer, YWCA of the USA	None
Lewis F. Pennock — 1942 Trustee	1993	Partner, law firm of Pennock & Cooper	None
Ruth H. Quigley — 1935 Trustee	2001	Retired	None
Louis S. Sklar <sup>4</sup> — 1939 Trustee	1993	Executive Vice President, Development and Operations Hines Interests Limited Partnership (real estate development company)	None
Larry Soll — 1942 Trustee	2004	Retired	None
<b>Other Officers</b>			
Lisa O. Brinkley <sup>5</sup> — 1959 Senior Vice President and Chief Compliance Officer	2004	Senior Vice President, A I M Management Group Inc. (financial services holding company); Senior Vice President and Chief Compliance Officer, A I M Advisors, Inc.; Vice President and Chief Compliance Officer, A I M Capital Management, Inc. and A I M Distributors, Inc.; and Vice President, AIM Investment Services, Inc. and Fund Management Company Formerly: Senior Vice President and Compliance Director, Delaware Investments Family of Funds.	N/A
Kevin M. Carome — 1956 Senior Vice President, Secretary and Chief Legal Officer	2003	Director, Senior Vice President, Secretary and General Counsel, A I M Management Group Inc. (financial services holding company) and A I M Advisors, Inc.; Director and Vice President, INVESCO Distributors, Inc.; Vice President, A I M Capital Management, Inc., and AIM Investment Services, Inc.; Director, Vice President and General Counsel, Fund Management Company and Senior Vice President, A I M Distributors, Inc. Formerly: Senior Vice President and General Counsel, Liberty Financial Companies, Inc.; and Senior Vice President and General Counsel, Liberty Funds Group, LLC and Vice President A I M Distributors, Inc.	N/A
Robert G. Alley — 1948 Vice President	1993	Managing Director, Chief Fixed Income Officer and Senior Investment Officer, A I M Capital Management, Inc., and Vice President, A I M Advisors, Inc.	N/A
Stuart W. Coco — 1955 Vice President	1993	Managing Director and Director of Money Market Research and Special Projects, A I M Capital Management, Inc.; and Vice President, A I M Advisors, Inc.	N/A
Sidney M. Dilgren — 1961 Vice President and Treasurer	2004	Vice President and Fund Treasurer, A I M Advisors, Inc. Formerly, Senior Vice President, AIM Investment Services, Inc.; and Vice President, AIM Distributors, Inc.	N/A
Mark D. Greenberg — 1957 Vice President	2004	Senior Portfolio Manager, A I M Advisors, Inc. Formerly: Senior Vice President and Senior Portfolio Manager, INVESCO Institutional (N.A.), Inc.	N/A
William R. Keithler — 1952 Vice President	2004	Senior Portfolio Manager, A I M Advisors, Inc. Formerly: Senior Vice President, Director of Sector Management and Senior Portfolio Manager, INVESCO Institutional (N.A.), Inc.	N/A
Karen Dunn Kelley — 1960 Vice President	1993	Director of Cash Management, Managing Director and Chief Cash Management Officer, A I M Capital Management, Inc.; Director and President, Fund Management Company; and Vice President, A I M Advisors, Inc.	N/A
Edgar M. Larsen <sup>4</sup> — 1940 Vice President	1999	Executive Vice President, A I M Management Group, Inc.; Senior Vice President, A I M Advisors, Inc., and President, Director of Investments, Chief Executive Officer and Chief Investment Officer, A I M Capital Management, Inc. (See footnote (4) below.) Formerly: Director of AIM Advisors, Inc. and A I M Management Group Inc., A I M Advisors, Inc.; and Director and Chairman, A I M Capital Management, Inc.	N/A

<sup>4</sup> Mr. Sklar and Mr. Larsen retired effective December 31, 2004.

<sup>5</sup> Ms. Brinkley was elected Senior Vice President and Chief Compliance Officer of the Trust effective September 20, 2004.

The Statement of Additional Information of the Trust includes additional information about the Fund's Trustees and is available upon request, without charge, by calling 1.800.410.4246.

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Washington D.C. 20007-5111

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**Custodian**  
State Street Bank and Trust Company  
225 Franklin Street  
Boston, MA 02110-2801

## Required Federal Income Tax Information (Unaudited)

Of ordinary dividends paid to shareholders during the Fund's tax year ended December 31, 2004, 0% is eligible for the dividends received deduction for corporations.

# **The Alger American Fund**

**Alger American  
Balanced Portfolio**

## **Annual Report**

**December 31, 2004**



## TABLE OF CONTENTS

Letter to Our Shareholders .....	1
Portfolio Highlights (Unaudited) .....	2
Shareholder Expense Example (Unaudited).....	3
Portfolio Summary (Unaudited).....	4
Schedule of Investments .....	5
Statement of Assets and Liabilities .....	9
Statement of Operations .....	10
Statements of Changes in Net Assets .....	11
Financial Highlights .....	12
Notes to Financial Statements.....	14
Report of Independent Registered Public Accounting Firm .....	18

# Dear Shareholders,

January 26, 2005

It was an unusual year for investing. Corporate profit growth has rarely been better, and both the U.S. and global economies expanded at a steady, stable clip with very low inflation for most of the year. But a tight presidential race, war in Iraq, rising energy and commodity prices, and continued investor skepticism kept the markets muted until November.

The year began on a positive note, and through March, the markets responded positively to strong manufacturing activity and growing consumer confidence. In April the mood started to shift. Energy prices were on the rise, economic growth led to speculation (correct as it turned out) that the Fed would soon raise interest rates, and the situation in Iraq was not improving. Perhaps just as unsettling to the markets, job growth lagged the broader economic recovery. As a result, the markets retreated from their March peak and progressively moved lower until August.

By autumn, manufacturing activity and consumer spending had slowed. The price of oil continued to rise through October, and the Fed increased the short-term rate from 1.00% to 2.25% by year end. The close presidential race generated passion but also created uncertainty, and the markets remained range-bound until Election Day. It may be a cliché, but investors truly dislike uncertainty, and the markets only moved up significantly after the election was over. When they did finally advance, the move was impressive. The last eight weeks of the year saw a broad-based rally, and companies that had been generating strong earnings all year were rewarded.

As a result, for the 12 months ended December 31, 2004, the equity markets experienced modest gains with the Dow gaining 5.31%, the Nasdaq up 9.15% and the S&P 500 up 10.88%. The yield on the U.S. Treasury 10-year note was 4.24% on December 31, compared to 4.27% a year earlier.

For the year, the Alger American Balanced Portfolio returned 4.57%, while the Russell 1000 Growth Index returned 6.30% and the Lehman Brothers Government/Credit Bond Index rose 4.19%. Information technology stocks represented approximately a third of the equity portion of the Portfolio and slightly underperformed. We also underperformed the benchmark in the health care sector largely because of our biotech holdings in ImClone Systems, ICOS and Millennium Pharmaceuticals. In consumer discretionary we were on par with the Russell benchmark. However, eBay's solid performance was not enough to offset the loss sustained by our position in Netflix. Although our holdings in industrials were below market weight, the Portfolio outperformed the benchmark in part due to Tyco International.

The fixed-income portion of the Portfolio slightly underperformed the Lehman Index as a result of reducing its overweight in longer-dated Treasuries in December. While the

Portfolio retained its market weighting of Corporate, Agency and Treasury securities, we reduced the overall duration of the Portfolio in anticipation of higher rates due to increased inflation expectations. Unfortunately, the U.S. yield curve trended flatter as inflation data continued to come in weaker than expected during the fourth quarter.

## Looking Ahead

For the first time in many years, we believe that the market is no longer gripped by the irrational exuberance of the late 1990s or the irrational pessimism of the first years of the new millennium. Instead, we think that this market will reward or penalize companies based on how well those companies perform. As a result, heading into 2005, we expect to see steady and rational gains with less volatility than in past years. In light of impressive corporate earnings growth and low interest rates, we believe that much of the market is undervalued, and that companies achieving solid, double-digit earnings should command better prices in the year ahead.

At the same time, employment and wage gains are likely to be less impressive than corporate profit growth. Productivity remains high by historic averages, and companies have not needed to initiate substantial new hiring. In addition, higher energy prices look to be a mild check on what is otherwise a very robust economy. While the pace of growth should slow from its pace a year ago, corporate profits overall should grow in the high single-digits, with many companies significantly exceeding that. We expect GDP growth to be at least 3%.

Alger is celebrating its 40th anniversary of managing money, and our investment philosophy and process remain the same. This year, however, was a bit disappointing to us. Uncertainty trumped fundamentals, and our stocks didn't do as well as we had expected. Looking back, perhaps this was simply the "pause that refreshes". In the rally following the election, both the markets and our performance have picked up considerably. We think this is a positive harbinger for 2005.

As always, we will continue to use our time-tested, disciplined approach in order to identify dynamic companies and invest in them. We value the trust you have placed in us, and we thank you. We look forward to the year ahead.

Respectfully submitted,

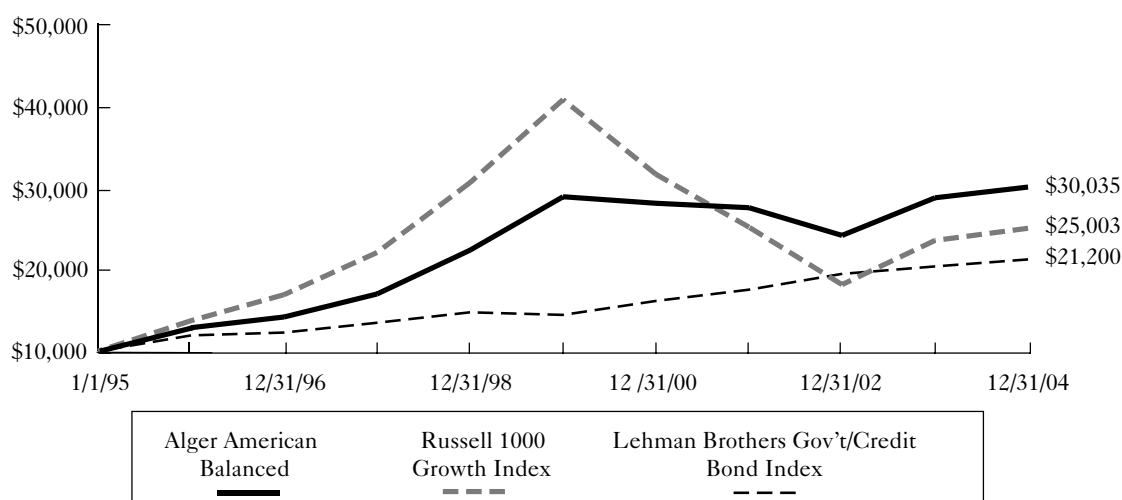


Dan C. Chung  
Chief Investment Officer

## ALGER AMERICAN BALANCED PORTFOLIO

*Portfolio Highlights Through December 31, 2004 (Unaudited)*

### HYPOTHETICAL \$10,000 INVESTMENT—10 Years Ended December 31, 2004



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, and the Lehman Brothers Government/Credit Bond Index for the ten years ended December 31, 2004. Figures for the Alger American Balanced Class O shares, the Russell 1000 Growth 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.

### PERFORMANCE COMPARISON THROUGH December 31, 2004

	Average Annual Total Returns			
	1 Year	5 Years	10 Years	Since Inception
Class O (Inception 9/5/89)	4.57%	0.81%	11.63%	9.26%
Russell 1000 Growth Index	6.30%	(9.29%)	9.60%	9.51%
Lehman Brothers Gov't/Credit Bond Index	4.19%	8.00%	7.80%	7.87%
Class S (Inception 5/1/02)	4.27%	—	—	4.89%
Russell 1000 Growth Index	6.30%	—	—	4.05%
Lehman Brothers Gov't/Credit Bond Index	4.19%	—	—	6.85%

*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**  
**SHAREHOLDER EXPENSE EXAMPLE (UNAUDITED)**

As a shareholder of the Portfolio, you incur two types of costs: transaction costs, if applicable; and ongoing costs, including management fees, distribution (12b-1) fees, if applicable, and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds.

The example below is based on an investment of \$1,000 invested at the beginning of the six-month period starting July 1, 2004 and ending December 31, 2004.

**Actual Expenses**

The first line for each class of shares in the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you would have paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During the Period" to estimate the expenses you paid on your account during this period.

**Hypothetical Example for Comparison Purposes**

The second line for each class of shares in the table below provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratios for each class of shares and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs. Therefore, the second line under each class of shares in the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

		Beginning Account Value July 1, 2004	Ending Account Value December 31, 2004	Expenses Paid During the Period July 1, 2004 to December 31, 2004(b)	Ratio of Expenses to Average Net Assets Year Ended December 31, 2004
<b>Class O</b>	<b>Actual</b> .....	\$1,000.00	\$1,029.56	\$4.44	0.87%
	<b>Hypothetical(a)</b> .....	1,000.00	1,020.76	4.42	0.87
<b>Class S</b>	<b>Actual</b> .....	1,000.00	1,028.47	5.71	1.12
	<b>Hypothetical(a)</b> .....	1,000.00	1,019.51	5.69	1.12

(a) 5% annual return before expenses.

(b) Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).



**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**PORTFOLIO SUMMARY\* (UNAUDITED)**

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<b>Sectors/Security Types</b>	
Consumer Discretionary .....	15.7%
Consumer Staples .....	1.6
Energy .....	7.6
Financials .....	5.0
Health Care .....	11.8
Industrials .....	3.8
Information Technology .....	17.5
Materials .....	2.4
Telecommunications Services .....	0.6
Total Common Stocks .....	<u>66.0</u>
Corporate Obligations .....	13.2
U.S. Agency Obligations .....	6.2
U.S. Treasury Obligations .....	11.3
Total Obligations .....	<u>30.7</u>
Cash and Net Other Assets .....	3.3
	<u>100.0%</u>

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\* Based on net assets.



**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**SCHEDULE OF INVESTMENTS—DECEMBER 31, 2004 (Cont'd)**

Shares	COMMON STOCKS—(Cont'd)	Value	Principal Amount	CORPORATE BONDS—13.2%	Value
	<b>METALS &amp; MINING—1.2%</b>			<b>AEROSPACE &amp; DEFENSE—.7%</b>	
50,300	Peabody Energy Corporation .....	\$ 4,069,772	\$ 555,000	Boeing Capital Corp., 6.50%, 2/15/12 .....	\$ 622,763
			550,000	Northrop Grumman Corporation, 7.125%, 2/15/11 .....	631,981
	<b>MULTILINE RETAIL—2.4%</b>			United Technologies, 4.875%, 11/1/06 .....	<u>1,067,360</u>
31,100	Federated Department Stores, Inc. ....	1,797,269	1,038,000		<u>2,322,104</u>
12,600	Kohl's Corporation* .....	619,542			
112,900	Target Corporation .....	<u>5,862,897</u>			
		<u>8,279,708</u>			
			790,000	<b>AUTOMOTIVE—1.2%</b>	
	<b>OIL &amp; GAS—1.6%</b>			DaimlerChrysler N. A. Holding Corp., 4.05%, 6/4/08 .....	788,992
38,200	BP PLC Sponsored ADR# .....	2,230,880	1,000,000	General Motors Acceptance Corp., 4.50%, 7/15/06 .....	1,000,976
23,850	EOG Resources, Inc. ....	1,701,935		General Motors Acceptance Corp., 6.875%, 9/15/11 .....	<u>2,611,572</u>
70,400	Sasol ADR# .....	<u>1,526,272</u>	2,545,000		<u>4,401,540</u>
		<u>5,459,087</u>			
				<b>BEVERAGES—.2%</b>	
	<b>PHARMACEUTICALS—3.6%</b>			Anheuser-Busch Companies, Inc., 7.00%, 12/1/25 .....	<u>874,416</u>
83,150	Abbott Laboratories .....	3,878,948	825,000		
45,600	IVAX Corporation* .....	721,392			
37,600	Johnson & Johnson .....	2,384,592			
60,200	Sanofi-Aventis ADR# .....	2,411,010			
59,050	Sepracor Inc.* .....	<u>3,505,798</u>			
		<u>12,901,740</u>	1,350,000	<b>CABLE—.4%</b>	
				Cox Communications, Inc., 5.45%, 12/15/14(a) .....	<u>1,352,516</u>
	<b>SEMICONDUCTORS &amp; SEMICONDUCTOR EQUIPMENT—3.6%</b>				
86,150	Analog Devices, Inc. ....	3,180,658	1,000,000	<b>CAPITAL MARKETS—.9%</b>	
139,300	Freescale Semiconductor Inc. Cl. A* .....	2,482,326	850,000	Goldman Sachs Group, Inc., 6.60%, 1/15/12	1,117,626
180,250	Intel Corporation .....	4,216,048	1,000,000	J.P. Morgan Chase & Co., 3.625%, 5/1/08 ..	844,631
74,000	Linear Technology Corporation .....	<u>2,868,240</u>		Morgan Stanley, 6.75%, 4/15/11 .....	<u>1,123,090</u>
		<u>12,747,272</u>			<u>3,085,347</u>
			925,000	<b>COMMERCIAL BANKS—.8%</b>	
	<b>SOFTWARE—2.6%</b>			Associates Corp. North America, 6.95%, 11/1/18 .....	1,073,270
256,600	Microsoft Corporation .....	6,853,786	1,175,000	Bank of America Corp., 5.375%, 6/15/14 ...	1,228,471
97,300	Symantec Corporation* .....	<u>2,506,448</u>	551,000	US Bancorp National Association, Minneapolis 6.50%, 2/1/08 .....	<u>594,542</u>
		<u>9,360,234</u>			<u>2,896,283</u>
				<b>COMMUNICATION SERVICES—.6%</b>	
	<b>SPECIALTY RETAIL—1.6%</b>			AT&T Wireless Services Inc., 7.50%, 5/1/07 .	<u>2,091,978</u>
60,050	Bed Bath & Beyond Inc.* .....	2,391,792	1,925,000		
58,250	Lowe's Companies, Inc. ....	<u>3,354,617</u>			
		<u>5,746,409</u>			
			1,500,000	<b>COMPUTERS &amp; PERIPHERALS—.5%</b>	
	<b>TEXTILES, APPAREL &amp; LUXURY GOODS—.8%</b>			International Business Machines Corp., 6.50%, 1/15/28 .....	<u>1,701,959</u>
27,000	Coach, Inc.* .....	1,522,800			
34,050	Polo Ralph Lauren Corporation Cl. A .....	<u>1,450,530</u>			
		<u>2,973,330</u>	1,000,000	<b>CONSUMER FINANCE—.3%</b>	
				American Express Credit, 3.00%, 5/16/08 ...	<u>977,374</u>
	<b>WIRELESS TELECOMMUNICATION SERVICES—.6%</b>				
1,570	China Netcom Group Corporation (Hong Kong) Limited ADR*# .....	42,013	500,000	<b>DIVERSIFIED FINANCIAL SERVICES—.7%</b>	
85,600	Sprint Corporation .....	<u>2,127,160</u>	1,755,000	Block Financial Corp., 8.50%, 4/15/07 .....	550,648
		<u>2,169,173</u>		Household Finance Corp., 4.75%, 5/15/09 ..	<u>1,801,385</u>
					<u>2,352,033</u>
	<b>Total Common Stocks (Cost \$208,862,500) .....</b>	<u>234,029,184</u>			

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**SCHEDULE OF INVESTMENTS—DECEMBER 31, 2004 (Cont'd)**

Principal Amount	CORPORATE BONDS—(Cont'd)	Value	Principal Amount	CORPORATE BONDS—(Cont'd)	Value
	<b>DIVERSIFIED TELECOMMUNICATION SERVICES—.7%</b>			<b>THRIFTS &amp; MORTGAGE FINANCE—.4%</b>	
\$ 1,068,000	Verizon New York Inc., Series A, 6.875%, 4/1/12 .....	\$ 1,200,538	\$ 1,300,000	Washington Mutual, Inc., 4.375%, 1/15/08 ..	\$ 1,321,199
1,250,000	Verizon Wireless Capital LLC Note, 5.375%, 12/15/06 .....	1,295,353	914,000	<b>UTILITIES—.3%</b>	
		<u>2,495,891</u>		Southern California Edison Co., 5.00%, 1/15/14 .....	930,469
	<b>ELECTRIC UTILITIES—.9%</b>			<b>WIRELESS TELECOMMUNICATION SERVICES—.3%</b>	
660,000	AEP Texas North Company Senior Notes, 5.50%, 3/1/13 .....	686,675	1,000,000	Vodafone Group PLC, 7.75%, 2/15/10 .....	1,161,704
1,500,000	Con Edison Company Of New York, 5.625%, 7/1/12 .....	1,604,109		<b>Total Corporate Bonds (Cost \$45,541,299) .....</b>	<b>46,684,045</b>
873,000	Dominion Resources, Inc., 5.00%, 3/15/13 ..	879,826		<b>U.S. GOVERNMENT &amp; AGENCY OBLIGATIONS—17.5%</b>	
		<u>3,170,610</u>		<b>Federal Farm Credit Bank,</b>	
	<b>ENERGY EQUIPMENT &amp; SERVICES—.4%</b>		1,300,000	2.125%, 8/15/05 .....	1,295,009
1,500,000	Baker Hughes Inc., 6.25%, 1/15/09 .....	1,626,338	2,000,000	5.87%, 9/2/08 .....	2,151,502
	<b>FOOD &amp; STAPLES RETAILING—.6%</b>		1,500,000	<b>Federal Home Loan Banks,</b>	
1,000,000	Safeway Inc., 6.15%, 3/1/06 .....	1,031,749	1,000,000	7.25%, 5/13/05 .....	1,525,967
1,000,000	Wal-Mart Stores, Inc., 4.55%, 5/1/13 .....	1,011,119	1,000,000	6.375%, 8/15/06 .....	1,050,415
		<u>2,042,868</u>	1,000,000	6.75%, 8/15/07 .....	1,083,746
	<b>FOOD CHAINS—.1%</b>		1,189,000	<b>Federal Home Loan Mortgage Corporation,</b>	
480,000	Fred Meyer, Inc. Sr. Notes, 7.45%, 3/1/08 ...	529,592	4,100,000	4.25%, 7/15/09 .....	1,210,905
	<b>FOOD PRODUCTS—.6%</b>		1,000,000	4.50%, 1/15/14 .....	4,105,900
1,037,000	Kellogg Co. Senior Note, 2.875%, 6/1/08 ...	1,008,026	1,740,000	<b>Federal National Mortgage Association,</b>	
1,025,000	Kraft Foods Inc., 6.25%, 6/1/12 .....	1,126,890	1,230,000	7.125%, 2/15/05 .....	1,005,227
		<u>2,134,916</u>	500,000	2.30%, 1/20/06 .....	1,727,569
	<b>INDUSTRIAL CONGLOMERATES—.7%</b>		1,300,000	3.125%, 7/15/06 .....	1,230,016
870,000	General Electric Company, 5.00%, 2/1/13 ...	894,065	1,380,000	6.96%, 4/2/07 .....	539,354
800,000	Tyco International Group SA, 5.80%, 8/1/06 ...	828,606	1,300,000	6.625%, 10/15/07 .....	1,409,753
650,000	Tyco International Group SA, 6.00%, 11/15/13 .....	709,377	1,515,000	3.25%, 8/15/08 .....	1,362,961
		<u>2,432,048</u>	508,000	3.25%, 2/15/09 .....	1,486,956
	<b>INSURANCE—.1%</b>		2,123,000	6.625%, 11/15/30 .....	607,401
373,000	SAFECO Corporation, 7.25%, 9/1/12 .....	426,405	2,749,000	<b>U.S. Treasury Bonds,</b>	
	<b>MEDIA—1.0%</b>		4,094,000	7.25%, 5/15/16 .....	2,658,064
748,000	Comcast Corporation, 6.50%, 1/15/15 .....	833,004	6,982,000	6.875%, 8/15/25 .....	3,463,418
645,000	Liberty Media Corporation Floating Rate Note, 3.99%, 9/17/06 .....	653,069	1,550,000	7.50%, 11/15/16 .....	5,233,127
551,000	News America Inc., 6.625%, 1/9/08 .....	595,077	1,500,000	<b>U.S. Treasury Notes,</b>	
1,200,000	Viacom Inc., 7.70%, 7/30/10 .....	1,406,005	626,000	1.125%, 6/30/05 .....	6,937,273
		<u>3,487,155</u>	4,100,000	6.50%, 8/15/05 .....	1,588,206
	<b>OIL &amp; GAS—.5%</b>		230,000	5.75%, 11/15/05 .....	642,237
1,500,000	Conoco Funding Co., 6.35%, 10/15/11 .....	1,676,597	6,385,000	2.875%, 11/30/06 .....	4,088,471
	<b>TELEPHONES—.3%</b>		132,000	4.375%, 5/15/07 .....	236,460
1,000,000	Deutsche Telekom International Finance B V Gtd Notes, 8.50%, 6/15/10 .....	1,192,703	1,626,000	3.00%, 11/15/07 .....	6,347,590
			880,000	3.125%, 9/15/08 .....	130,726
			4,100,000	3.125%, 4/15/09 .....	1,601,865
			2,168,000	3.625%, 7/15/09 .....	882,820
				3.50%, 11/15/09 .....	4,082,067
				4.75%, 5/15/14 .....	2,259,970
				<b>Total U.S. Government &amp; Agency Obligations (Cost \$61,544,712) .....</b>	<b>61,944,975</b>

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN BALANCED PORTFOLIO**  
**SCHEDULE OF INVESTMENTS—DECEMBER 31, 2004 (Cont'd)**

<u>Principal Amount</u>	<b>SHORT-TERM INVESTMENTS—3.0%</b>	<u>Value</u>
	<b>U. S. AGENCY OBLIGATIONS—2.9%</b>	
\$10,200,000	Federal Home Loan Banks, 1.00%, 1/3/05 . . .	<u>\$ 10,199,433</u>
	<b>SECURITIES HELD UNDER REPURCHASE AGREEMENTS—.1%</b>	
	Securities Held under Repurchase Agreement, 1.50%, 1/3/05, with Bear, Stearns & Co. Inc., dtd 12/31/04, repurchase price \$308,768; collateralized by U.S. Treasury Notes (par value \$295,000 due 7/15/13) . . . . .	<u>308,729</u>
	<b>Total Short-Term Investments (Cost \$10,508,162) . . . . .</b>	<u>10,508,162</u>
<b>Total Investments</b>		
(Cost \$326,456,673)(b) . . . . .	99.7%	353,166,366
Other Assets In Excess of Liabilities . . . . .	.3	<u>1,012,753</u>
<b>Net Assets . . . . .</b>	<u>100.0%</u>	<u>\$354,179,119</u>

\* Non-income producing security.

# American Depositary Receipts.

(a) Pursuant to Securities and Exchange Commission Rule 144A, these securities are liquid and may be sold prior to their maturity only to qualified institutional buyers. These securities represent 0.4% of net assets of the Portfolio.

(b) At December 31, 2004, the net unrealized appreciation on investments, based on cost for federal income tax purposes of \$328,983,269 amounted to \$24,183,097 which consisted of aggregate gross unrealized appreciation of \$31,190,340 and aggregate gross unrealized depreciation of \$7,007,243.

See Notes to Financial Statements.

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

**December 31, 2004**

<b>Assets:</b>	
Investments in securities, at value (identified cost*)—see accompanying schedule of investments	\$353,166,366
Receivable for shares of beneficial interest sold	96,044
Interest and dividends receivable	1,473,639
Prepaid expenses	42,160
<b>Total Assets</b>	<b>354,778,209</b>
<b>Liabilities:</b>	
Payable for shares of beneficial interest redeemed	289,015
Accrued investment management fees	223,171
Accrued expenses	86,904
<b>Total Liabilities</b>	<b>599,090</b>
<b>Net Assets</b>	<b>\$354,179,119</b>
<b>Net Assets Consist of:</b>	
Paid-in capital	\$339,862,519
Undistributed net investment income (accumulated loss)	4,928,021
Undistributed net realized gain (accumulated loss)	(17,321,114)
Net unrealized appreciation	26,709,693
<b>Net Assets</b>	<b>\$354,179,119</b>
<b>Class O</b>	
<b>Net Asset Value Per Share</b>	<b>\$13.55</b>
<b>Class S</b>	
<b>Net Asset Value Per Share</b>	<b>\$13.71</b>
Shares of beneficial interest outstanding—Note 5	
<b>Class O</b>	<b>22,860,082</b>
<b>Class S</b>	<b>3,241,673</b>
*Identified cost	<b>\$326,456,673</b>

See Notes to Financial Statements.

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

*For the year ended December 31, 2004*

<b>INVESTMENT INCOME</b>	
Income:	
Interest	\$ 5,508,284
Security lending	8,674
Dividends (net of foreign withholding taxes*)	2,352,166
<b>Total Income</b>	<b>7,869,124</b>
Expenses:	
Management fees—Note 3(a)	2,582,718
Custodian fees	121,321
Transfer agent fees	172,181
Professional fees	26,542
Distribution Fees—Note 3(b) Class S	94,619
Trustees' fees	2,814
Miscellaneous	77,488
<b>Total Expenses</b>	<b>3,077,683</b>
<b>Net Investment Income</b>	<b>4,791,441</b>
<b>REALIZED AND UNREALIZED GAIN ON INVESTMENTS</b>	
Net realized gain on investments	17,663,589
Net change in unrealized appreciation (depreciation) on investments	(7,195,886)
<b>Net realized and unrealized gain on investments</b>	<b>10,467,703</b>
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$15,259,144</b>
*Foreign withholding taxes	\$ 6,351

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, 2004*

Net investment income	\$ 4,791,441
Net realized gain on investments	17,663,589
Net change in unrealized appreciation (depreciation) on investments	(7,195,886)
Net increase in net assets resulting from operations	15,259,144
Dividends to shareholders from:	
Net investment income	
Class O	(4,594,189)
Class S	(515,970)
Total dividends to shareholders	(5,110,159)
Increase (decrease) from shares of beneficial interest transactions:	
Class O	(8,131,316)
Class S	14,491,781
Net increase from shares of beneficial interest transactions—Note 5	6,360,465
Total increase	16,509,450
Net Assets	
Beginning of year	337,669,669
End of year	\$354,179,119
Undistributed net investment income (accumulated loss)	\$ 4,928,021

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

*For the year ended December 31, 2003*

Net investment income	\$ 4,593,192
Net realized gain on investments	17,967,071
Net change in unrealized appreciation (depreciation) on investments	28,325,706
Net increase in net assets resulting from operations	50,885,969
Dividends to shareholders from:	
Net investment income	
Class O	(5,765,586)
Class S	(156,618)
Total dividends to shareholders	(5,922,204)
Increase from shares of beneficial interest transactions:	
Class O	11,701,375
Class S	26,220,988
Net increase from shares of beneficial interest transactions—Note 5	37,922,363
Total increase	82,886,128
Net Assets	
Beginning of year	254,783,541
End of year	\$337,669,669
Undistributed net investment income (accumulated loss)	\$ 4,474,447

See Notes to Financial Statements.



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

*For a share outstanding throughout the period*

	<u>Income from Investment Operations</u>					
	<u>Net Asset Value, Beginning of Period</u>	<u>Net Investment Income (Loss)</u>	<u>Net Realized and Unrealized Gain (Loss) on Investments</u>	<u>Total from Investment Operations</u>	<u>Dividends from Net Investment Income</u>	<u>Distributions from Net Realized Gains</u>
<b>Class O</b>						
Year ended 12/31/04 .....	\$13.16	\$0.19	\$ 0.40	\$ 0.59	\$(0.20)	\$ —
Year ended 12/31/03 .....	11.29	0.19	1.94	2.13	(0.26)	—
Year ended 12/31/02 .....	13.08	0.20	(1.79)	(1.59)	(0.20)	—
Year ended 12/31/01 .....	13.77	0.18	(0.43)	(0.25)	(0.20)	(0.24)
Year ended 12/31/00 .....	15.57	0.20	(0.61)	(0.41)	(0.13)	(1.26)
<b>Class S</b>						
Year ended 12/31/04 .....	\$13.34	\$0.17	\$ 0.39	\$ 0.56	\$(0.19)	\$ —
Year ended 12/31/03 .....	11.47	0.23	1.90	2.13	(0.26)	—
Eight months ended 12/31/02(i)(ii) .....	12.50	0.02	(1.05)	(1.03)	—	—

(i) Ratios have been annualized; total return has not been annualized.  
(ii) Commenced operations May 1, 2002.

See Notes to Financial Statements.

**Ratios/Supplemental Data**

<u>Total Distributions</u>	<u>Net Asset Value, End of Period</u>	<u>Total Return</u>	<u>Net Assets, End of Period (000's omitted)</u>	<u>Ratio of Expenses to Average Net Assets</u>	<u>Ratio of Net Investment Income (Loss) to Average Net Assets</u>	<u>Portfolio Turnover Rate</u>
\$ (0.20)	\$13.55	4.57%	\$309,744	0.87%	1.41%	177.66%
(0.26)	13.16	19.03	308,990	0.87	1.60	135.67
(0.20)	11.29	(12.29)	254,290	0.87	2.16	188.76
(0.44)	13.08	(1.93)	224,959	0.85	2.53	62.93
(1.39)	13.77	(2.76)	115,894	0.88	2.40	63.37
\$ (0.19)	\$13.71	4.27%	\$ 44,435	1.12%	1.20%	177.66%
(0.26)	13.34	18.73	28,680	1.11	1.25	135.67
—	11.47	(8.24)	494	1.17	1.67	188.76

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

**December 31, 2004**

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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. 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 (the “NYSE”) is open as of the close of the NYSE (normally 4:00 p.m. Eastern time). Listed 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 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 included within the Nasdaq market are valued at the Nasdaq official closing price (“NOCP”) on the day of valuation, or if there is no NOCP issued, at the last sale price on such day. Securities included within the Nasdaq market for which there is no NOCP and no last sale price on the day of valuation are valued at the mean between the last bid and asked prices on such day.

Securities for which market quotations are not readily available are valued at fair value, as determined in good faith pursuant to procedures established by the Board of Trustees.

Securities 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.

Premiums and discounts on debt securities purchased are amortized or accreted over the lives of the respective securities.

(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. 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. As of December 31, 2004, there were no securities on loan.

(e) **Dividends to Shareholders:** Dividends 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 capital gains payable to holders of its shares.

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules. Therefore, the source of the Portfolio’s distributions may be shown in the accompanying financial statements as either from, or in excess of, net investment income or net realized gain on investment transactions, or return of capital, depending on the type of book/tax differences that may exist.

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

**December 31, 2004**

Capital accounts within the financial statements are adjusted for permanent book/tax differences. Reclassifications result primarily from the difference in tax treatment of premium/discount of debt securities. The reclassifications had no impact on the net asset values of the Portfolio and are 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.

(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 based on net assets. 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) **Indemnification:** The Fund enters into contracts that contain a variety of indemnification provisions. The Fund's maximum exposure under these arrangements is unknown. The Fund does not anticipate recognizing any loss related to these arrangements.

(i) **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 the Portfolio pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor"), a fee at the annual rate of .25% of the average daily net assets of the Class S shares of the Portfolio to compensate the Distributor for its activities and expenses incurred in distributing the Class S shares. The fees paid may be more or less than the expenses incurred by the Distributor.

(c) **Brokerage Commissions:** During the year ended December 31, 2004, the Portfolio paid the Distributor \$768,239 in connection with securities transactions.

(d) **Transfer Agency Fees:** Effective November 22, 2004, the Fund has entered into a transfer agency agreement with State Street Bank and Trust Company. The transfer agency services are provided by State Street Bank and Trust Company's affiliate, Boston Financial Data Services, Inc. Prior to November 22, 2004, the Fund's transfer agent was Alger Shareholder Services, Inc. ("Services"), an affiliate of Alger Management. During the year ended December 31, 2004, the Portfolio paid Services \$152,042 in connection with these services.

(e) **Other:** Certain trustees and officers of the Fund 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, 2004, were \$598,861,859 and \$596,551,177, respectively.

**NOTE 5—Share Capital:**

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

During the year ended December 31, 2004, transactions of shares of beneficial interest were as follows:

	<u>Shares</u>	<u>Amount</u>
Class O:		
Shares sold .....	2,185,658	\$ 28,497,215
Dividends reinvested .....	364,618	4,594,189
Shares redeemed .....	(3,161,452)	(41,222,720)
Net decrease .....	<u>(611,176)</u>	<u>\$ (8,131,316)</u>
Class S:		
Shares sold .....	1,344,767	\$ 17,839,094
Dividends reinvested .....	40,405	515,970
Shares redeemed .....	(293,720)	(3,863,283)
Net increase .....	<u>1,091,452</u>	<u>\$ 14,491,781</u>

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

**December 31, 2004**

During the year ended December 31, 2003, transactions of shares of beneficial interest were as follows:

	<u>Shares</u>	<u>Amount</u>
Class O:		
Shares sold .....	3,145,502	\$ 38,141,693
Dividends reinvested .....	474,925	5,765,586
Shares redeemed .....	(2,674,121)	(32,205,904)
Net increase .....	<u>946,306</u>	<u>\$ 11,701,375</u>
Class S:		
Shares sold .....	2,170,538	\$ 27,030,327
Dividends reinvested .....	12,712	156,618
Shares redeemed .....	(76,071)	(965,957)
Net increase .....	<u>2,107,179</u>	<u>\$ 26,220,988</u>

**NOTE 6—Tax Character of Distributions to Shareholders:**

Distributions paid by the Portfolio during the year ended December 31, 2004, and the year ended December 31, 2003, consisted entirely of ordinary income.

As of December 31, 2004, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income .....	\$ 5,435,104
Undistributed long-term gain .....	—
Unrealized appreciation (depreciation) .....	24,183,097

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

At December 31, 2004, the Portfolio, for federal income tax purposes, had capital loss carryforwards which expire as set forth in the table below. These amounts may be applied against future net realized gains until the earlier of their utilization or expiration.

	<u>Expiration Date</u>		
<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
—	\$15,301,596	—	\$15,301,596

**Note 7—Regulatory Matters and Legal Proceedings:**

Alger Management has been responding to inquiries, document requests and/or subpoenas from regulatory authorities, including the United States Securities and Exchange Commission (“SEC”), the Office of the New York State Attorney General, and the Attorney General of New Jersey, in connection with their investigation of practices in the mutual fund industry identified as “market timing” and “late trading.” Alger Management has assured the board of the Fund that if it be determined that improper trading practices in the Fund detrimentally affected its performance, Alger Management will

make appropriate restitution. At the present time, Alger Management is unable to estimate the impact, if any, that the outcome of these investigations may have on the Fund’s results of operations or financial condition.

Certain civil actions have developed out of the regulatory investigations. Several purported class actions and shareholder derivative suits have been filed against various parties, including, depending on the lawsuit, Alger Management, certain of the mutual funds managed by Alger Management (the “Alger Mutual Funds”), and certain current and former Alger Mutual Fund trustees and officers, alleging wrongful market-timing and late-trading activities. These cases have been transferred to the U.S. District Court of Maryland by the Judicial Panel on Multidistrict Litigation for consolidated pre-trial proceedings. On September 29, 2004, consolidated amended complaints involving these cases — a Consolidated Amended Fund Derivative Complaint (the “Derivative Complaint”) and two substantially identical Consolidated Amended Class Action Complaints (together, the “Class Action Complaint”) — were filed in the Maryland federal district court under the caption number 1:04-MD-15863 (JFM).

The Derivative Complaint, brought on behalf of the Alger Mutual Funds and Castle Convertible Fund, Inc., a registered closed-end fund managed by Alger Management, alleges (i) violations, by Alger Management and, depending on the specific offense alleged, by its immediate parent the Distributor, (Fred Alger & Company, Incorporated) and/or the fund trustee defendants, of Sections 36(a), 36(b), 47, and 48 of the Investment Company Act of 1940 and of Sections 206 and 215 of the Investment Advisers Act of 1940, breach of fiduciary duty, and breach of contract, (ii) various offenses by other, unrelated, third-party defendants, and (iii) unjust enrichment by all the named defendants, all by virtue of the alleged wrongful market-timing and late-trading activities. The complaint seeks, among other things, removal of the trustee defendants and of Alger Management, certain rescissory relief, disgorgement of management fees and allegedly unlawful profits, compensatory and punitive monetary damages, and plaintiffs’ fees and expenses (including attorney and expert fees). The Class Action Complaint names the Alger-related defendants named in the Derivative Complaint as well as certain defendants not named in the Derivative Complaint, including certain entities affiliated with Alger Management, certain Alger Mutual Funds, including the Fund, and certain additional former trustees and a former officer of the defendant Alger Mutual Funds. It alleges, on the basis of factual allegations similar to those of the Derivative Complaint with respect to the Alger defendants, (i) offenses by Alger defendants similar to those alleged in the Derivative Complaint, (ii) violations, by Alger

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

***December 31, 2004***

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Management, the Distributor, their affiliates, the funds named as defendants, and the current and former fund trustees and officers, of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, Sections 10(b) (and Rule 10b-5 thereunder) and 20(a) of the Securities Exchange Act of 1934, and Section 34(b) of the Investment Company Act of 1940, (iii) breach of contract by the funds named as defendants, and (iv) unjust enrichment by all of the named defendants. It seeks relief similar to that sought in the Derivative Complaint.

Alger Management does not believe that the foregoing lawsuits will materially affect its ability to perform its management contracts with any of the funds that it manages, and the management of the Fund believes that it will not be materially adversely affected by the pending lawsuits.

## **Report of Independent Registered Public Accounting Firm**

### **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) as of December 31, 2004, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years then ended, and the financial highlights for each of the three years 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 audits. The financial highlights for each of the two years ended December 31, 2001 were audited by other auditors, whose report, dated January 24, 2002, expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2004, by correspondence with the custodian and brokers. We believe that our audits provide 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 at December 31, 2004, and the results of its operations for the year then ended, the changes in its net assets for each of the two years then ended, and the financial highlights for each of the three years then ended, in conformity with U.S. generally accepted accounting principles.

ERNST & YOUNG LLP

New York, New York  
January 28, 2005

### Trustees and Officers of the Fund (Unaudited)

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 Funds, The Alger Institutional Funds, The China-U.S. Growth 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 (69) Chairman of the Board	Chairman of the Board 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 five of the six 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 (72) Trustee	Attorney; Private investor since 1981; Director of Brown-Forman Corporation; Trustee/Director of the six funds in the Alger Fund Complex; formerly of Counsel to the law firm of Kohler & Barnes.	1988	23
Nathan E. Saint-Amand, M.D. (66) Trustee	Medical doctor in private practice; Co-Partner Fishers Island Partners; Member of the Board of the Manhattan Institute; Trustee/Director of the six funds in the Alger Fund Complex. Formerly Co-Chairman Special Projects Committee of Memorial Sloan Kettering.	1988	23



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>			
Dan C. Chung (42) President	President, Director and Chief Investment Officer of Alger Management; President and Director of Associates, Alger Inc., Properties, Services, Agency, International, ARI and Trust; Trustee/Director of four of the six funds in the Alger Fund Complex.	2001	N/A
Frederick A. Blum (51) Treasurer and Assistant Secretary	Executive Vice President and Treasurer of Alger Inc., Alger Management, Properties, Associates, ARI, Services and Agency since September 2003 and Senior Vice President prior thereto; Treasurer or Assistant Treasurer, and Assistant Secretary, of each of the other five investment companies in the Alger Fund Complex since the later of 1996 or its inception. Director of SICAV and International and Chairman of the Board (and prior thereto, Senior Vice President) and Treasurer of Alger National Trust Company since 2003.	1996	N/A
Katherine P. Feld (46) Chief Compliance Officer	Senior Vice President and Chief Compliance Officer of Alger Management and Alger, Inc. since 2004; previously Vice President and Senior Counsel of Oppenheimer Funds, Inc.	2004	N/A

Mr. Alger is an “interested person” (as defined in the Investment Company Act) of the Fund because of his affiliation with Alger Management. Mr. Chung is Mr. Alger’s son-in-law. No Trustee is a director of any public company except as may be indicated under “Principal Occupations.”

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.

### Proxy Voting Policies

A description of the policies and procedures the Fund uses to determine how to vote proxies relating to portfolio securities and the proxy voting record is available, without charge, by calling (800) 992-3863 or online on the Fund’s website at <http://www.alger.com> or on the SEC’s website at <http://www.sec.gov>.

### Quarterly Fund Holdings

Commencing with the fiscal quarter ending September 30, 2004, the Portfolio’s file their complete schedule of portfolio holdings with the SEC for the first and third quarter of each fiscal year on Form N-Q. Forms N-Q are available online on the Fund’s website at <http://www.alger.com> or on the SEC’s website at <http://www.sec.gov>. The Portfolio’s Forms N-Q may be reviewed and copied at the SEC’s Public Reference Room in Washington, D.C. Information regarding the operation of the SEC’s Public Reference Room may be obtained by calling 1-800-SEC-0330. A copy of the most recent quarterly holdings may also be obtained from the Fund by calling (800) 992-3863.





# **The Alger American Fund**

**Alger American  
Leveraged AllCap Portfolio**

## **Annual Report**

**December 31, 2004**



## TABLE OF CONTENTS

Letter to Our Shareholders .....	1
Portfolio Highlights (Unaudited) .....	2
Shareholder Expense Example (Unaudited).....	3
Portfolio Summary (Unaudited).....	4
Schedule of Investments.....	5
Statement of Assets and Liabilities .....	7
Statement of Operations .....	8
Statements of Changes in Net Assets .....	9
Financial Highlights .....	10
Notes to Financial Statements.....	12
Report of Independent Registered Public Accounting Firm .....	16

# Dear Shareholders,

January 26, 2005

It was an unusual year for investing. Corporate profit growth has rarely been better, and both the U.S. and global economies expanded at a steady, stable clip with very low inflation for most of the year. But a tight presidential race, war in Iraq, rising energy and commodity prices, and continued investor skepticism kept the markets muted until November.

The year began on a positive note, and through March, the markets responded positively to strong manufacturing activity and growing consumer confidence. In April the mood started to shift. Energy prices were on the rise, economic growth led to speculation (correct as it turned out) that the Fed would soon raise interest rates, and the situation in Iraq was not improving. Perhaps just as unsettling to the markets, job growth lagged the broader economic recovery. As a result, the markets retreated from their March peak and progressively moved lower until August.

By autumn, manufacturing activity and consumer spending had slowed. The price of oil continued to rise through October, and the Fed increased the short-term rate from 1.00% to 2.25% by year end. The close presidential race generated passion but also created uncertainty, and the markets remained range-bound until Election Day. It may be a cliché, but investors truly dislike uncertainty, and the markets only moved up significantly after the election was over. When they did finally advance, the move was impressive. The last eight weeks of the year saw a broad-based rally, and companies that had been generating strong earnings all year were rewarded.

As a result, for the 12 months ended December 31, 2004, the equity markets experienced modest gains with the Dow gaining 5.31%, the Nasdaq up 9.15% and the S&P 500 up 10.88%. The yield on the U.S. Treasury 10-year note was 4.24% on December 31, compared to 4.27% a year earlier.

The Alger American Leveraged AllCap Portfolio gained 8.19% compared with a gain of 6.93% for the Russell 3000 Growth Index. We were overweight in the information technology sector, and good stock selection helped us outperform. Apple Computer and Yahoo! both had an outstanding year, as did Research in Motion, which makes the popular handheld Blackberry device. The semiconductor industry, however, was a weak area, for the market in general and for the Portfolio, which saw poor performance from equipment maker Applied Materials and from Kulicke and Soffa Industries.

Our holdings in consumer discretionary performed in line with the benchmark. Satellite radio companies XM Satellite and Sirius both had impressive years, and online retailer eBay was among the top performers in the Portfolio. The exception was DVD

rental service Netflix, which detracted from overall performance.

## Looking Ahead

For the first time in many years, we believe that the market is no longer gripped by the irrational exuberance of the late 1990s or the irrational pessimism of the first years of the new millennium. Instead, we think that this market will reward or penalize companies based on how well those companies perform. As a result, heading into 2005, we expect to see steady and rational gains with less volatility than in past years. In light of impressive corporate earnings growth and low interest rates, we believe that much of the market is undervalued, and that companies achieving solid, double-digit earnings should command better prices in the year ahead.

At the same time, employment and wage gains are likely to be less impressive than corporate profit growth. Productivity remains high by historic averages, and companies have not needed to initiate substantial new hiring. In addition, higher energy prices look to be a mild check on what is otherwise a very robust economy. While the pace of growth should slow from its pace a year ago, corporate profits overall should grow in the high single-digits, with many companies significantly exceeding that. We expect GDP growth to be at least 3%.

Alger is celebrating its 40th anniversary of managing money, and our investment philosophy and process remain the same. This year, however, was a bit disappointing to us. Uncertainty trumped fundamentals, and our stocks didn't do as well as we had expected. Looking back, perhaps this was simply the "pause that refreshes". In the rally following the election, both the markets and our performance have picked up considerably. We think this is a positive harbinger for 2005.

As always, we will continue to use our time-tested, disciplined approach in order to identify dynamic companies and invest in them. We value the trust you have placed in us, and we thank you. We look forward to the year ahead.

Respectfully submitted,

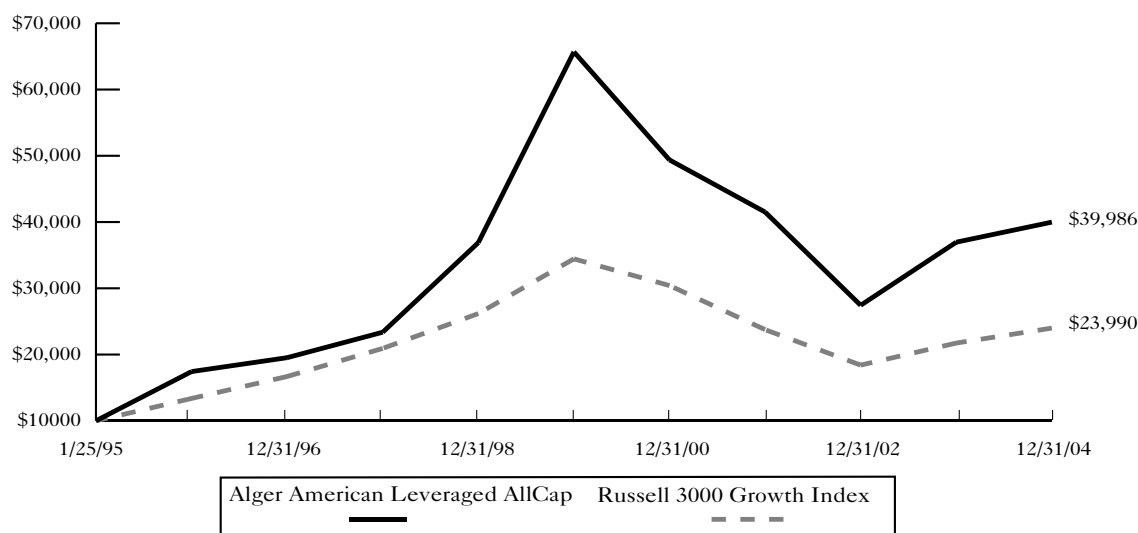


Dan C. Chung  
Chief Investment Officer

## ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO

*Portfolio Highlights Through December 31, 2004 (Unaudited)*

### HYPOTHETICAL \$10,000 INVESTMENT FROM JANUARY 25, 1995 TO DECEMBER 31, 2004



The chart above illustrates the growth in value of a hypothetical \$10,000 investment made in Alger American Leveraged AllCap Class O shares and the Russell 3000 Growth Index on January 25, 1995, the inception date of the Alger American Leveraged AllCap Portfolio, through December 31, 2004. Figures for the Alger American Leveraged AllCap Class O shares and the Russell 3000 Growth 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.

### PERFORMANCE COMPARISON THROUGH December 31, 2004

	Average Annual Total Returns		
	1 Year	5 Years	Since Inception
Class O (Inception 1/25/95)	8.19%	(9.45%)	14.97%
Russell 3000 Growth Index	6.93%	(8.88%)	9.20%
Class S (Inception 5/1/02)	7.90%	—	2.21%
Russell 3000 Growth Index	6.93%	—	4.36%

*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**  
**SHAREHOLDER EXPENSE EXAMPLE (UNAUDITED)**

As a shareholder of the Portfolio, you incur two types of costs: transaction costs, if applicable; and ongoing costs, including management fees, distribution (12b-1) fees, if applicable, and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds.

The example below is based on an investment of \$1,000 invested at the beginning of the six-month period starting July 1, 2004 and ending December 31, 2004.

**Actual Expenses**

The first line for each class of shares in the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you would have paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During the Period" to estimate the expenses you paid on your account during this period.

**Hypothetical Example for Comparison Purposes**

The second line for each class of shares in the table below provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratios for each class of shares and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs. Therefore, the second line under each class of shares in the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

		Beginning Account Value July 1, 2004	Ending Account Value December 31, 2004	Expenses Paid During the Period July 1, 2004 to December 31, 2004(b)	Ratio of Expenses to Average Net Assets Year Ended December 31, 2004
<b>Class O</b>	<b>Actual</b> .....	\$1,000.00	\$1,020.86	\$4.93	0.97%
	<b>Hypothetical(a)</b> .....	1,000.00	1,020.26	4.93	0.97
<b>Class S</b>	<b>Actual</b> .....	1,000.00	1,019.64	6.19	1.22
	<b>Hypothetical(a)</b> .....	1,000.00	1,019.00	6.19	1.22

(a) 5% annual return before expenses.

(b) Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).



**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**PORTFOLIO SUMMARY\* (UNAUDITED)**

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<b>Sectors</b>	
Consumer Discretionary .....	12.2%
Consumer Staples .....	1.5
Energy .....	6.6
Financials .....	7.4
Health Care .....	23.0
Industrials .....	10.1
Information Technology .....	32.1
Materials .....	2.7
Telecommunication Services .....	0.8
Utilities .....	0.0
Cash and Net Other Assets .....	3.6
	100.0%

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\* Based on net assets.

**THE ALGER AMERICAN FUND**  
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**  
**SCHEDULE OF INVESTMENTS—DECEMBER 31, 2004**

Shares	COMMON STOCKS—96.4%	Value	Shares	Value	
	<b>AEROSPACE &amp; DEFENSE—3.0%</b>			<b>DIVERSIFIED FINANCIAL SERVICES—1.3%</b>	
27,400	General Dynamics Corporation	\$ 2,866,040	16,300	CapitalSource Inc.*	\$ 418,421
53,200	Lockheed Martin Corporation	2,955,260	54,900	Lehman Brothers Holdings Inc.	4,802,652
59,200	United Technologies Corporation	6,118,320			5,221,073
		11,939,620		<b>ENERGY EQUIPMENT &amp; SERVICES—2.8%</b>	
	<b>AIR FREIGHT &amp; LOGISTICS—1.7%</b>		231,700	National-Oilwell, Inc.*	8,176,693
97,400	UTI Worldwide, Inc.	6,625,148	41,600	Schlumberger Limited	2,785,120
					10,961,813
	<b>BIOTECHNOLOGY—6.2%</b>			<b>FOOD &amp; STAPLES RETAILING—1.5%</b>	
40,700	Biogen Idec Inc.*	2,711,027		CVS Corporation	5,917,691
71,000	Genentech, Inc.*	3,865,240	131,300		
77,000	Genzyme Corporation General Division*	4,471,390		<b>FREIGHT &amp; LOGISTICS—1.0%</b>	
213,400	Gilead Sciences, Inc.*	7,466,866	42,600	FedEx Corp.	4,195,674
37,200	OSI Pharmaceuticals, Inc.*	2,784,420			
135,000	Serologicals Corporation*	2,986,200		<b>HEALTH CARE EQUIPMENT &amp; SUPPLIES—3.6%</b>	
		24,285,143	49,400	Beckman Coulter, Inc.	3,309,306
	<b>BUSINESS SERVICES—0.7%</b>		76,600	Fisher Scientific International Inc.*	4,778,308
46,800	MicroStrategy Incorporated*	2,819,700	79,500	Kinetic Concepts, Inc.*	6,065,850
					14,153,464
	<b>CAPITAL MARKETS—3.1%</b>			<b>HEALTH CARE PROVIDERS &amp; SERVICES—5.7%</b>	
113,800	Bank of New York Company, Inc. (The)	3,803,196	49,200	AMERIGROUP Corporation*	3,722,472
20,700	Investors Financial Services Corp.	1,034,586	133,000	Caremark Rx, Inc.*	5,244,190
124,200	Merrill Lynch & Co., Inc.	7,423,434	28,000	CIGNA Corporation	2,283,960
		12,261,216	71,700	PacifiCare Health Systems, Inc.*	4,052,484
	<b>CHEMICALS—1.0%</b>		56,600	UnitedHealth Group Incorporated	4,982,498
110,300	Lubrizol Corporation	4,065,658	17,200	WellPoint Inc.*	1,978,000
					22,263,604
	<b>COMMERCIAL BANKS—1.5%</b>			<b>HOTELS, RESTAURANTS &amp; LEISURE—2.8%</b>	
75,600	East West Bancorp, Inc.	3,172,176	347,300	Hilton Hotels Corporation	7,897,602
45,950	Wells Fargo & Company	2,855,792	56,450	Royal Caribbean Cruises Ltd.	3,073,138
		6,027,968			10,970,740
	<b>COMMERCIAL SERVICES &amp; SUPPLIES—1.4%</b>			<b>HOUSEHOLD DURABLES—0.8%</b>	
95,000	First Marblehead Corporation (The)*	5,343,750		Garmin Ltd.	3,303,612
			54,300		
	<b>COMMUNICATION EQUIPMENT—5.4%</b>			<b>INDUSTRIAL CONGLOMERATES—3.2%</b>	
537,200	Brocade Communications Systems, Inc.*	4,104,208	158,100	General Electric Company	5,770,650
227,700	Motorola, Inc.	3,916,440	191,600	Tyco International Ltd.	6,847,784
456,500	Nokia Oyj ADR#	7,153,355			12,618,434
111,950	QUALCOMM Inc.	4,746,680		<b>INFORMATION TECHNOLOGY SERVICES—1.5%</b>	
17,850	Research In Motion Limited*	1,471,197		Automatic Data Processing, Inc.	3,738,705
		21,391,880	84,300	Kanbay International Inc.*	2,006,330
			64,100		5,745,035
	<b>COMPUTERS &amp; PERIPHERALS—1.8%</b>			<b>INTERNET &amp; CATALOG RETAIL—1.5%</b>	
85,600	Apple Computer, Inc.*	5,512,640	51,900	eBay Inc.*	6,034,932
54,800	PalmOne, Inc.*	1,728,940			
		7,241,580		<b>INTERNET SOFTWARE &amp; SERVICES—6.9%</b>	
	<b>COMPUTER TECHNOLOGY—1.1%</b>		40,700	Google Inc. Cl. A*	7,859,170
95,400	NAVTEQ*	4,422,744	102,900	Netease.com Inc. ADR*#	5,436,207
			92,600	VeriSign, Inc.*	3,103,952
			284,400	Yahoo! Inc.*	10,716,192
					27,115,521



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

*December 31, 2004*

<b>Assets:</b>	
Investments in securities, at value (identified cost*)—see accompanying schedule of investments	\$392,186,254
Receivable for investment securities sold	2,383,701
Receivable for shares of beneficial interest sold	719,405
Interest and dividends receivable	140,555
Prepaid expenses	44,418
<b>Total Assets</b>	<b>395,474,333</b>
<b>Liabilities:</b>	
Payable for investment securities purchased	825,797
Payable for shares of beneficial interest redeemed	150,923
Accrued investment management fees	281,782
Accrued expenses	108,170
<b>Total Liabilities</b>	<b>1,366,672</b>
<b>Net Assets</b>	<b>\$394,107,661</b>
<b>Net Assets Consist of:</b>	
Paid-in capital	\$559,612,374
Undistributed net investment income (accumulated loss)	—
Undistributed net realized gain (accumulated loss)	(213,360,718)
Net unrealized appreciation	47,856,005
<b>Net Assets</b>	<b>\$394,107,661</b>
<b>Class O</b>	
<b>Net Asset Value Per Share</b>	<b>\$30.39</b>
<b>Class S</b>	
<b>Net Asset Value Per Share</b>	<b>\$30.17</b>
Shares of beneficial interest outstanding—Note 6	
<b>Class O</b>	<b>12,513,550</b>
<b>Class S</b>	<b>456,424</b>
*Identified cost	<b>\$344,330,249</b>

See Notes to Financial Statements.

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

*For the year ended December 31, 2004*

INVESTMENT INCOME

Income:	
Interest	\$ 206,586
Security lending	10,948
Dividends (net of foreign withholding taxes*)	2,952,138
<b>Total Income</b>	<b>3,169,672</b>
Expenses:	
Management fees—Note 3(a)	3,268,233
Custodian fees	117,898
Transfer agent fees	192,249
Professional fees	28,417
Distribution fees—Note 3(b) Class S	26,866
Trustees' fees	2,814
Miscellaneous	107,577
<b>Total Expenses</b>	<b>3,744,054</b>
<b>Net Investment Loss</b>	<b>(574,382)</b>
REALIZED AND UNREALIZED GAIN ON INVESTMENTS	
Net realized gain on investments	36,696,484
Net change in unrealized appreciation (depreciation) on investments	(6,646,763)
<b>Net realized and unrealized gain on investments</b>	<b>30,049,721</b>
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$29,475,339</b>
*Foreign withholding taxes	\$ 13,927

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, 2004*

Net investment loss	\$ (574,382)
Net realized gain on investments	36,696,484
Net change in unrealized appreciation (depreciation) on investments	(6,646,763)
Net increase in net assets resulting from operations	29,475,339
Increase (decrease) from shares of beneficial interest transactions:	
Class O	(30,503,604)
Class S	5,519,232
Net decrease from shares of beneficial interest transactions—Note 6	(24,984,372)
Total increase	4,490,967
Net Assets	
Beginning of year	389,616,694
End of year	\$394,107,661
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, 2003*

Net investment loss	\$ (1,172,886)
Net realized gain on investments	30,410,378
Net change in unrealized appreciation (depreciation) on investments	65,817,117
Net increase in net assets resulting from operations	95,054,609
Increase from shares of beneficial interest transactions:	
Class O	16,562,284
Class S	6,346,039
Net increase from shares of beneficial interest transactions—Note 6	22,908,323
Total increase	117,962,932
Net Assets	
Beginning of year	271,653,762
End of year	\$389,616,694
Undistributed net investment income (accumulated loss)	\$ —

See Notes to Financial Statements.

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

*For a share outstanding throughout the period*

	<u>Income from Investment Operations</u>					
	<u>Net Asset Value, Beginning of Period</u>	<u>Net Investment Income (Loss)</u>	<u>Net Realized and Unrealized Gain (Loss) on Investments</u>	<u>Total from Investment Operations</u>	<u>Distributions from Net Realized Gains</u>	<u>Net Asset Value, End of Period</u>
<b>Class O</b>						
Year ended 12/31/04 .....	\$28.09	\$(0.07)	\$ 2.37	\$ 2.30	\$ —	\$30.39
Year ended 12/31/03 .....	20.85	(0.07)	7.31	7.24	—	28.09
Year ended 12/31/02 .....	31.55	(0.14)	(10.56)	(10.70)	—	20.85
Year ended 12/31/01 .....	38.80	0.00(iii)	(6.06)	(6.06)	(1.19)	31.55
Year ended 12/31/00 .....	57.97	(0.02)(iii)	(13.77)	(13.79)	(5.38)	38.80
<b>Class S</b>						
Year ended 12/31/04 .....	\$27.96	\$(0.04)	\$ 2.25	\$ 2.21	\$ —	\$30.17
Year ended 12/31/03 .....	20.83	(0.16)	7.29	7.13	—	27.96
Eight months ended 12/31/02(i)(ii) .....	28.46	(0.02)	(7.61)	(7.63)	—	20.83

(i) Ratios have been annualized; total return has not been annualized.  
(ii) Commenced operations May 1, 2002.  
(iii) Amount was computed based on average shares outstanding during the period.

See Notes to Financial Statements.

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**Ratios/Supplemental Data**

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<u>Total Return</u>	<u>Net Assets, End of Period (000's omitted)</u>	<u>Ratio of Expenses to Average Net Assets</u>	<u>Ratio of Net Investment Income (Loss) to Average Net Assets</u>	<u>Portfolio Turnover Rate</u>
8.19%	\$380,336	0.97%	(0.14)%	182.41%
34.72	382,289	0.97	(0.36)	161.71
(33.91)	271,373	0.96	(0.49)	203.05
(15.93)	443,209	0.92	0.00	103.03
(24.83)	476,517	0.90	(0.03)	132.28
7.90%	\$ 13,772	1.22%	(0.31)%	182.41%
34.23	7,328	1.21	(0.63)	161.71
(26.81)	281	1.32	(0.92)	203.05



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

**December 31, 2004**

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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. 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 (the “NYSE”) is open as of the close of the NYSE (normally 4:00 p.m. Eastern time). Listed 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 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 included within the Nasdaq market are valued at the Nasdaq official closing price (“NOCP”) on the day of valuation, or if there is no NOCP issued, at the last sale price on such day. Securities included within the Nasdaq market for which there is no NOCP and no last sale price on the day of valuation are valued at the mean between the last bid and asked prices on such day.

Securities for which market quotations are not readily available are valued at fair value, as determined in good faith pursuant to procedures established by the Board of Trustees.

Securities 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. 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. As of December 31, 2004, there were no securities on loan.

(e) **Dividends to Shareholders:** Dividends 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 capital gains payable to holders of its shares.

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

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

**December 31, 2004**

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be shown in the accompanying financial statements as either from, or in excess of, net investment income or net realized gain on investment transactions, or return of capital, depending on the type of book/tax differences that may exist.

Capital accounts within the financial statements are adjusted for permanent book/tax differences. Reclassifications result primarily from the difference in tax treatment of net operating losses. The reclassifications had no impact on the net asset values of the Portfolio and are 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.

(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 based on net assets. 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) **Indemnification:** The Fund enters into contracts that contain a variety of indemnification provisions. The Fund's maximum exposure under these arrangements is unknown. The Fund does not anticipate recognizing any loss related to these arrangements.

(i) **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 the 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 Portfolio to compensate the Distributor for its activities and expenses incurred in distributing the Class S shares. The fees paid may be more or less than the expenses incurred by the Distributor.

(c) **Brokerage Commissions:** During the year ended December 31, 2004, the Portfolio paid the Distributor \$969,166 in connection with securities transactions.

(d) **Transfer Agency Fees:** Effective November 22, 2004, the Fund has entered into a transfer agency agreement with State Street Bank and Trust Company. The transfer agency services are provided by State Street Bank and Trust Company's affiliate, Boston Financial Data Services, Inc. Prior to November 22, 2004, the Fund's transfer agent was Alger Shareholder Services, Inc. ("Services"), an affiliate of Alger Management. During the year ended December 31, 2004, the Portfolio paid Services \$169,885 in connection with these services.

(e) **Other:** Certain trustees and officers of the Fund 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, 2004, were \$671,087,058 and \$696,425,222, 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. For the year ended December 31, 2004, the Portfolio had borrowings which averaged \$236,595 at a weighted average interest rate of 2.30%.

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

**December 31, 2004**

**NOTE 6—Share Capital:**

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

During the year ended December 31, 2004, transactions of shares of beneficial interest were as follows:

	<u>Shares</u>	<u>Amount</u>
Class O:		
Shares sold .....	1,900,609	\$ 53,951,207
Shares redeemed .....	(2,996,553)	(84,454,811)
Net decrease .....	<u>(1,095,944)</u>	<u>\$ (30,503,604)</u>
Class S:		
Shares sold .....	242,826	\$ 6,844,614
Shares redeemed .....	(48,549)	(1,325,382)
Net increase .....	<u>194,277</u>	<u>\$ 5,519,232</u>

During the year ended December 31, 2003, transactions of shares of beneficial interest were as follows:

	<u>Shares</u>	<u>Amount</u>
Class O:		
Shares sold .....	3,780,537	\$ 92,613,034
Shares redeemed .....	(3,183,882)	(76,050,750)
Net increase .....	<u>596,655</u>	<u>\$ 16,562,284</u>
Class S:		
Shares sold .....	261,088	\$ 6,645,894
Shares redeemed .....	(12,407)	(299,855)
Net increase .....	<u>248,681</u>	<u>\$ 6,346,039</u>

**NOTE 7—Tax Character of Distributions to Shareholders:**

During the year ended December 31, 2004, and the year ended December 31, 2003, there were no distributions paid.

As of December 31, 2004, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income .....	\$	—
Undistributed long-term gain .....		—
Unrealized appreciation (depreciation) .....		47,825,138

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

At December 31, 2004, the Portfolio, for federal income tax purposes, had capital loss carryforwards which expire as set forth in the table below. These amounts may be applied against future net realized gains until the earlier of their utilization or expiration.

<u>2009</u>	<u>Expiration Date</u>		<u>Total</u>
	<u>2010</u>	<u>2011</u>	
\$115,342,080	97,987,772	—	\$213,329,852

**Note 8—Regulatory Matters and Legal Proceedings:**

Alger Management has been responding to inquiries, document requests and/or subpoenas from regulatory authorities, including the United States Securities and Exchange Commission (“SEC”), the Office of the New York State Attorney General, and the Attorney General of New Jersey, in connection with their investigation of practices in the mutual fund industry identified as “market timing” and “late trading.” Alger Management has assured the board of the Fund that if it be determined that improper trading practices in the Fund detrimentally affected its performance, Alger Management will make appropriate restitution. At the present time, Alger Management is unable to estimate the impact, if any, that the outcome of these investigations may have on the Fund’s results of operations or financial condition.

Certain civil actions have developed out of the regulatory investigations. Several purported class actions and shareholder derivative suits have been filed against various parties, including, depending on the lawsuit, Alger Management, certain of the mutual funds managed by Alger Management (the “Alger Mutual Funds”), and certain current and former Alger Mutual Fund trustees and officers, alleging wrongful market-timing and late-trading activities. These cases have been transferred to the U.S. District Court of Maryland by the Judicial Panel on Multidistrict Litigation for consolidated pre-trial proceedings. On September 29, 2004, consolidated amended complaints involving these cases — a Consolidated Amended Fund Derivative Complaint (the “Derivative Complaint”) and two substantially identical Consolidated Amended Class Action Complaints (together, the “Class Action Complaint”) — were filed in the Maryland federal district court under the caption number 1:04-MD-15863 (JFM).

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

***December 31, 2004***

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The Derivative Complaint, brought on behalf of the Alger Mutual Funds and Castle Convertible Fund, Inc., a registered closed-end fund managed by Alger Management, alleges (i) violations, by Alger Management and, depending on the specific offense alleged, by its immediate parent the Distributor, (Fred Alger & Company, Incorporated) and/or the fund trustee defendants, of Sections 36(a), 36(b), 47, and 48 of the Investment Company Act of 1940 and of Sections 206 and 215 of the Investment Advisers Act of 1940, breach of fiduciary duty, and breach of contract, (ii) various offenses by other, unrelated, third-party defendants, and (iii) unjust enrichment by all the named defendants, all by virtue of the alleged wrongful market-timing and late-trading activities. The complaint seeks, among other things, removal of the trustee defendants and of Alger Management, certain rescissory relief, disgorgement of management fees and allegedly unlawful profits, compensatory and punitive monetary damages, and plaintiffs' fees and expenses (including attorney and expert fees). The Class Action Complaint names the Alger-related defendants named in the Derivative Complaint as well as certain defendants not named in the Derivative Complaint, including certain entities affiliated with Alger Management, certain Alger Mutual Funds, including the Fund, and

certain additional former trustees and a former officer of the defendant Alger Mutual Funds. It alleges, on the basis of factual allegations similar to those of the Derivative Complaint with respect to the Alger defendants, (i) offenses by Alger defendants similar to those alleged in the Derivative Complaint, (ii) violations, by Alger Management, the Distributor, their affiliates, the funds named as defendants, and the current and former fund trustees and officers, of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, Sections 10(b) (and Rule 10b-5 thereunder) and 20(a) of the Securities Exchange Act of 1934, and Section 34(b) of the Investment Company Act of 1940, (iii) breach of contract by the funds named as defendants, and (iv) unjust enrichment by all of the named defendants. It seeks relief similar to that sought in the Derivative Complaint.

Alger Management does not believe that the foregoing lawsuits will materially affect its ability to perform its management contracts with any of the funds that it manages, and the management of the Fund believes that it will not be materially adversely affected by the pending lawsuits.

## **Report of Independent Registered Public Accounting Firm**

### **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) as of December 31, 2004, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years then ended, and the financial highlights for each of the three years 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 audits. The financial highlights for each of the two years ended December 31, 2001 were audited by other auditors, whose report, dated January 24, 2002, expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2004, by correspondence with the custodian and brokers. We believe that our audits provide 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 at December 31, 2004, and the results of its operations for the year then ended, the changes in its net assets for each of the two years then ended, and the financial highlights for each of the three years then ended, in conformity with U.S. generally accepted accounting principles.

ERNST & YOUNG LLP

New York, New York  
January 28, 2005

### Trustees and Officers of the Fund (Unaudited)

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 Funds, The Alger Institutional Funds, The China-U.S. Growth 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 (69) Chairman of the Board	Chairman of the Board 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 five of the six 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 (72) Trustee	Attorney; Private investor since 1981; Director of Brown-Forman Corporation; Trustee/Director of the six funds in the Alger Fund Complex; formerly of Counsel to the law firm of Kohler & Barnes.	1988	23
Nathan E. Saint-Amand, M.D. (66) Trustee	Medical doctor in private practice; Co-Partner Fishers Island Partners; Member of the Board of the Manhattan Institute; Trustee/Director of the six funds in the Alger Fund Complex. Formerly Co-Chairman Special Projects Committee of Memorial Sloan Kettering.	1988	23

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>			
Dan C. Chung (42) President	President, Director and Chief Investment Officer of Alger Management; President and Director of Associates, Alger Inc., Properties, Services, Agency, International, ARI and Trust; Trustee/Director of four of the six funds in the Alger Fund Complex.	2001	N/A
Frederick A. Blum (51) Treasurer and Assistant Secretary	Executive Vice President and Treasurer of Alger Inc., Alger Management, Properties, Associates, ARI, Services and Agency since September 2003 and Senior Vice President prior thereto; Treasurer or Assistant Treasurer, and Assistant Secretary, of each of the other five investment companies in the Alger Fund Complex since the later of 1996 or its inception. Director of SICAV and International and Chairman of the Board (and prior thereto, Senior Vice President) and Treasurer of Alger National Trust Company since 2003.	1996	N/A
Katherine P. Feld (46) Chief Compliance Officer	Senior Vice President and Chief Compliance Officer of Alger Management and Alger, Inc. since 2004; previously Vice President and Senior Counsel of Oppenheimer Funds, Inc.	2004	N/A

Mr. Alger is an “interested person” (as defined in the Investment Company Act) of the Fund because of his affiliation with Alger Management. Mr. Chung is Mr. Alger’s son-in-law. No Trustee is a director of any public company except as may be indicated under “Principal Occupations.”

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.

### Proxy Voting Policies

A description of the policies and procedures the Fund uses to determine how to vote proxies relating to portfolio securities and the proxy voting record is available, without charge, by calling (800) 992-3863 or online on the Fund’s website at <http://www.alger.com> or on the SEC’s website at <http://www.sec.gov>.

### Quarterly Fund Holdings

Commencing with the fiscal quarter ending September 30, 2004, the Portfolio’s file their complete schedule of portfolio holdings with the SEC for the first and third quarter of each fiscal year on Form N-Q. Forms N-Q are available online on the Fund’s website at <http://www.alger.com> or on the SEC’s website at <http://www.sec.gov>. The Portfolio’s Forms N-Q may be reviewed and copied at the SEC’s Public Reference Room in Washington, D.C. Information regarding the operation of the SEC’s Public Reference Room may be obtained by calling 1-800-SEC-0330. A copy of the most recent quarterly holdings may also be obtained from the Fund by calling (800) 992-3863.

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# **CREDIT SUISSE FUNDS**

## Annual Report

December 31, 2004

### **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.

The Trust's investment objectives, risks, charges and expenses (which should be considered carefully before investing), and more complete information about the Trust, are provided in the *Prospectus*, 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 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, 2004; 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. Portfolio investments are subject to investment risk, including loss of your investment.*

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Annual Investment Adviser's Report**  
December 31, 2004 (unaudited)

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February 1, 2005

Dear Shareholder:

For the 12 months ended December 31, 2004, Credit Suisse Trust — Emerging Markets Portfolio<sup>1</sup> (the "Portfolio") had a gain of 25.02%, versus an increase of 25.95% for the Morgan Stanley Capital International Emerging Markets Index.<sup>2</sup>

**Market Overview: Shaking off global macro worries**

The global environment was broadly favorable for emerging markets for the period as a whole. Ample liquidity conditions as a result of low global interest rates, robust global growth and high investor appetite for higher-return and higher-risk assets drove outperformance versus developed markets at the beginning of the period. In April and May of 2004, however, the asset class surrendered some of its gains, as fears of rising US interest rates and a sharp slowdown in China's economy sparked a wave of profit-taking, particularly within cyclicals and materials stocks which had strongly outperformed. Favorable market conditions returned late in the third quarter as fears of a sharp rise in US inflation and interest rates appeared ungrounded. As US yields began to trend lower, funds returned to higher-yielding assets, including emerging markets. Signs that China's growth slowdown was not going to be as severe as anticipated also lifted heavily sold-off commodity plays. Finally, the sharp decline in the US dollar that commenced at the end of the period was also positive for emerging market currencies, translating into higher US dollar market returns.

**Strategic Review: Tactical adjustments**

The Portfolio participated in the broad rally in emerging markets, although underperformance early in the period left the Portfolio modestly behind its benchmark for the full year. The key contributor to performance was strong stock selection within South Africa and Eastern Europe — most specifically, Russia. Performance was hindered by certain holdings in China and India, as well as limited exposure to smaller markets in Latin America and the Eastern Europe, Middle East and Africa (EMEA) region that registered strong returns.

In terms of regional positioning, we remained overweight in the larger markets within Latin America, albeit trimming our positions toward the end of period after substantial market gains. Rising US interest rates and slowing global growth have traditionally been the source of market pressure for Latin America and in particular Brazil, given the region's reliance on external financing. We believe that improved external fundamentals could make economic growth more resistant to global headwinds in this cycle.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Annual Investment Adviser's Report (continued)**  
December 31, 2004 (unaudited)

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Nevertheless, our positioning in both Mexico and Brazil is biased primarily toward companies dependent on domestic demand, such as Brazilian banks and Mexican homebuilders, where we have greater conviction about the earnings outlook.

We maintained a roughly neutral position in Asia overall. Within the larger North Asian markets, we favored Taiwan over Korea and China through most of the period. In Taiwan, we were exposed to financials stocks, which benefited from the improvement in domestic spending over the period. By contrast, a moribund consumer sector continued to inhibit the domestic recovery in Korea and the earnings outlook for domestic stocks and banks, although we believe attractive valuations for the market overall remain in place. In China, despite our relatively sanguine view over the prospects for macroeconomic growth, rising cost pressures have eroded the profitability amongst many Chinese corporates, while valuations have not been compelling in our view. Within the smaller markets of Southeast Asia, we also ended the period with overweightings in Malaysia and Thailand, reflecting our more positive outlook on their macro fundamentals. We remained underweighted in India, though we did add to our Indian position late in the period as concerns regarding the growth outlook and reform agenda of the incoming government appeared overblown.

We were primarily underweighted in the EMEA region during the period. In Eastern Europe, our primary overweight through much of the year had been in Russia, although we reduced our exposure as the corporate environment deteriorated. We were underweighted in South Africa through the period, due to our bias away from commodity exporters, which continue to be hampered by strength in the country's currency. We maintained an overweight in Turkey, based on positive macroeconomic developments and market expectation of positive news regarding Turkey's application for eventual EU membership. Our exposure to Israel through most of the period was broadly neutral, but with a relatively high bias toward domestic-oriented companies and banks, which we feel continue to have amongst the most compelling valuations in the emerging market bank universe.

**Going Forward: Clearer horizons?**

In the coming year, emerging markets, in our view, will not enjoy the type of strong liquidity and growth drivers which lifted the asset class in 2003 and 2004. Nevertheless, we still maintain a positive view on the asset class, barring any unforeseen geopolitical developments. In our opinion, macroeconomic risks within the emerging world are lower than at any point in recent history, while domestic growth prospects remain vibrant in many of our markets.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Annual Investment Adviser's Report (continued)**  
December 31, 2004 (unaudited)

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Valuations relative to developed markets continue to be attractive in our view, and we are optimistic that fund flows will continue into what has recently been an underowned asset class. While global growth probably looks poised to slow further, we are not expecting a growth collapse. We believe that oil prices will likely remain high but relatively stable, while US interest rates are likely to rise modestly going forward. These factors stand to keep risk thresholds at modest levels in our view, to the benefit of emerging markets, and we will remain focused on stocks we believe have the brightest long-term growth potential.

The Credit Suisse Emerging Markets Team

Annabel Betz  
Neil Gregson  
Matthew J.K. Hickman  
Elizabeth H. Eaton  
Jonathan S. Ong  
Emily Alejos

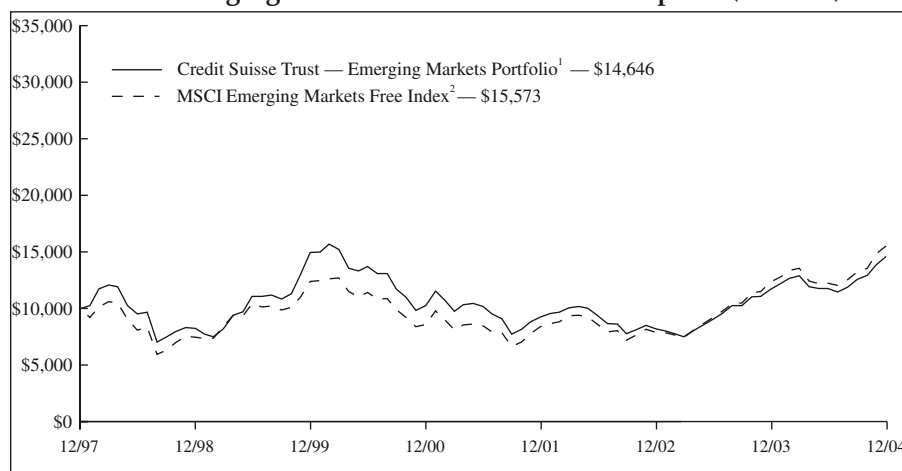
*International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods; these risks are generally heightened for emerging-market investments. The Portfolio may involve a greater degree of risk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

*In addition to historical information, this report contains forward-looking statements which may concern, among other things, domestic and foreign market, industry and economic trends and developments and government regulation and their potential impact on the Portfolio's investments. These statements are subject to risks and uncertainties and actual trends, developments and regulations in the future and their impact on the Portfolio could be materially different from those projected, anticipated or implied. The Portfolio has no obligation to update or revise forward-looking statements.*



**Credit Suisse Trust — Emerging Markets Portfolio**  
**Annual Investment Adviser’s Report (continued)**  
 December 31, 2004 (unaudited)

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



**Average Annual Returns as of December 31, 2004<sup>1</sup>**

<u>1 Year</u>	<u>5 Years</u>	<u>Since Inception</u>
25.02%	(0.46)%	5.61%

Returns represent past performance and include changes in share price and reinvestment of dividends and capital gains. **Past performance cannot guarantee future results.** The current performance of the Portfolio may be lower or higher than the figures shown. Returns and share price will fluctuate, and redemption value may be more or less than 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. Performance includes the effect of deducting expenses, but does not include charges and expenses attributable to any particular variable contract or Plan. Accordingly, the Prospectus of the sponsoring Participating Insurance Company separate account or Plan documents or other informational materials supplied by Plan sponsors should be carefully reviewed for information on relevant charges and expenses. Excluding these charges and expenses from quotations of performance has the effect of increasing the performance quoted, and the effect of these charges should be considered when comparing performance to that of other mutual funds. Performance information current to the most recent month-end is available at [www.csam.com/us](http://www.csam.com/us).

<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 Emerging Markets 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**  
**Annual Investment Adviser's Report (continued)**  
December 31, 2004 (unaudited)

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**Information About Your Portfolio's Expenses**

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section and which would result in higher total expenses. The following table is intended to help you understand your ongoing expenses of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The table is based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The table illustrates your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs, such as sales charges (loads) or redemption fees. If these transaction costs had been included, your costs would have been higher. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expenses of owning different funds.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Annual Investment Adviser’s Report (continued)**  
December 31, 2004 (unaudited)

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**Expenses and Value of a \$1,000 Investment**  
**for the six-month period ended December 31, 2004**

**Actual Portfolio Return**

Beginning Account Value 7/1/04	\$1,000.00
Ending Account Value 12/31/04	\$1,244.40
Expenses Paid per \$1,000*	\$ 7.90

**Hypothetical 5% Portfolio Return**

Beginning Account Value 7/1/04	\$1,000.00
Ending Account Value 12/31/04	\$1,018.10
Expenses Paid per \$1,000*	\$ 7.10

**Annualized Expense Ratios\*** 1.40%

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\* Expenses are equal to the Portfolio’s annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half year period, then divided by 366.

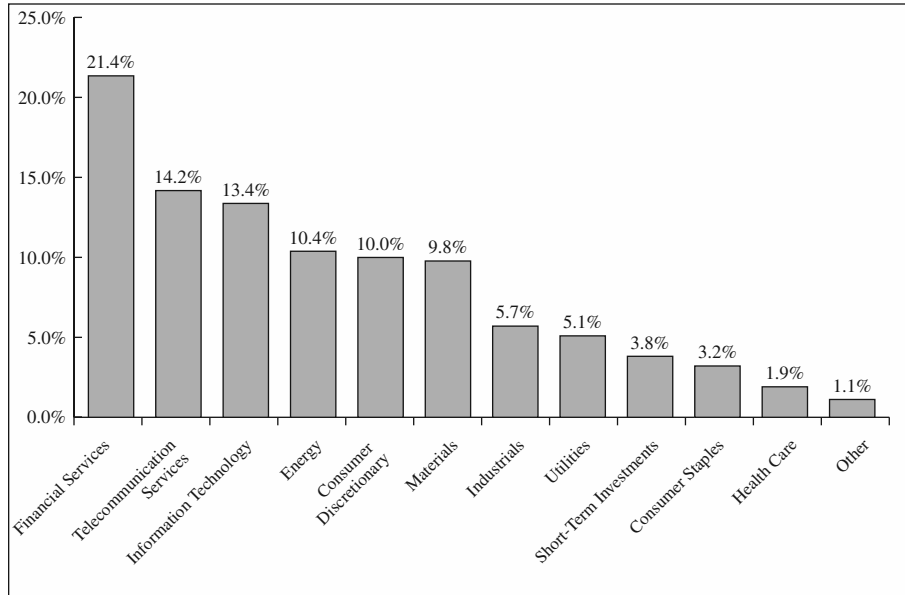
The “Expenses Paid per \$1,000” and the “Annualized Expense Ratios” in the tables are based on actual expenses paid by the Portfolio during the period, net of fee waivers and/or expense reimbursements. If those fee waivers and/or expense reimbursements had not been in effect, the Portfolio’s actual expenses would have been higher.

For more information, please refer to the Portfolio’s prospectus.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Annual Investment Adviser's Report (continued)**  
December 31, 2004 (unaudited)

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**SECTOR BREAKDOWN\***



\* The Portfolio's sector breakdown is expressed as a percentage of total investments (excluding security lending collateral) and may vary over time.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments**  
December 31, 2004

	<b>Number of Shares</b>	<b>Value</b>
<b>COMMON STOCKS (88.9%)</b>		
<b>Brazil (5.5%)</b>		
<i>Airlines (0.3%)</i>		
Gol-Linhas Aereas Inteligentes SA ADR*§	9,900	\$ 315,612
<i>Banks (0.5%)</i>		
Unibanco - Uniao de Bancos Brasileiros SA GDR	18,600	589,992
<i>Beverages (0.3%)</i>		
Companhia de Bebidas das Americas ADR	11,200	317,296
<i>Diversified Telecommunication Services (1.2%)</i>		
Brasil Telecom Participacoes SA ADR	14,300	545,545
Tele Norte Leste Participacoes SA	10,500	184,185
Tele Norte Leste Participacoes SA ADR	38,600	651,182
		<u>1,380,912</u>
<i>Metals &amp; Mining (0.3%)</i>		
Companhia Siderurgica Nacional SA	19,200	367,157
<i>Oil &amp; Gas (2.0%)</i>		
Petroleo Brasileiro SA - Petrobras ADR	63,600	2,336,157
<i>Paper &amp; Forest Products (0.5%)</i>		
Votorantim Celulose e Papel SA ADR§	34,500	558,900
<i>Water Utilities (0.3%)</i>		
Companhia de Saneamento Basico do Estado de Sao Paulo	6,680,000	395,996
<i>Wireless Telecommunication Services (0.1%)</i>		
Telesp Celular Participacoes SA ADR§	13,286	90,345
<b>TOTAL BRAZIL</b>		<u>6,352,367</u>
<b>Chile (1.8%)</b>		
<i>Banks (0.5%)</i>		
Banco Santander Chile SA ADR	15,200	514,672
<i>Beverages (0.6%)</i>		
Compania Cervecerias Unidas SA ADR	16,300	411,249
Embotelladora Andina SA ADR, Series B	23,200	301,832
		<u>713,081</u>
<i>Diversified Telecommunication Services (0.3%)</i>		
Compania de Telecomunicaciones de Chile SA ADR§	34,900	392,276
<i>Electric Utilities (0.4%)</i>		
Empresa Nacional de Electricidad SA	421,000	253,774
Enersis SA ADR*	25,300	215,303
		<u>469,077</u>
<b>TOTAL CHILE</b>		<u>2,089,106</u>
<b>China (4.1%)</b>		
<i>Airlines (0.9%)</i>		
Air China, Ltd. Series H	2,727,000	1,052,530

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2004

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS</b>		
<b>China</b>		
<i>Chemicals (0.7%)</i>		
Sinopec Yizheng Chemical Fibre Company, Ltd. Series H	3,974,000	\$ 845,374
<i>Electric Utilities (0.4%)</i>		
Huaneng Power International, Inc. Series H	542,000	405,796
<i>Insurance (1.6%)</i>		
China Life Insurance Company, Ltd. Series H*	2,796,000	1,870,390
<i>Oil &amp; Gas (0.5%)</i>		
Sinopec Zhenhai Refining & Chemical Company, Ltd.	590,000	611,289
<b>TOTAL CHINA</b>		<u>4,785,379</u>
<b>Hong Kong (3.6%)</b>		
<i>Industrial Conglomerates (0.6%)</i>		
Golden Meditech Company, Ltd.	2,787,000	702,783
<i>Oil &amp; Gas (0.8%)</i>		
CNOOC, Ltd.	1,626,000	870,658
<i>Textiles &amp; Apparel (0.6%)</i>		
Ports Design, Ltd.	1,370,000	740,284
<i>Wireless Telecommunication Services (1.6%)</i>		
China Mobile (Hong Kong), Ltd.	531,500	1,813,743
<b>TOTAL HONG KONG</b>		<u>4,127,468</u>
<b>Hungary (1.0%)</b>		
<i>Oil &amp; Gas (1.0%)</i>		
MOL Magyar Olaj-es Gazipari Rt.	16,200	1,136,879
<b>TOTAL HUNGARY</b>		<u>1,136,879</u>
<b>India (4.4%)</b>		
<i>Chemicals (1.1%)</i>		
Reliance Industries, Ltd. GDR, Rule 144A†	48,100	1,232,322
<i>Diversified Telecommunication Services (1.0%)</i>		
Bharti Tele-Ventures, Ltd.*	231,400	1,150,901
<i>Electric Utilities (0.5%)</i>		
National Thermal Power Corporation, Ltd.	295,000	592,782
<i>Gas Utilities (0.2%)</i>		
Gail India, Ltd.	52,400	278,658
<i>IT Consulting &amp; Services (1.2%)</i>		
Infosys Technologies, Ltd. ADR§	11,600	803,996
Tata Consultancy Services	18,422	565,967
		<u>1,369,963</u>
<i>Oil &amp; Gas (0.4%)</i>		
Oil & Natural Gas Corp., Ltd.	21,400	403,247
<b>TOTAL INDIA</b>		<u>5,027,873</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2004

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS</b>		
<b>Indonesia (0.9%)</b>		
<i>Banks (0.4%)</i>		
PT Bank Danamon Indonesia Tbk	991,500	\$ 467,966
<i>Wireless Telecommunication Services (0.5%)</i>		
PT Telekomunikasi Indonesia	1,118,500	581,131
<b>TOTAL INDONESIA</b>		<u>1,049,097</u>
<b>Israel (3.3%)</b>		
<i>Banks (0.7%)</i>		
Bank Hapoalim, Ltd.	235,200	793,848
<i>Diversified Financials (0.4%)</i>		
IDB Development Corporation, Ltd.	16,000	431,852
<i>Electronic Equipment &amp; Instruments (0.3%)</i>		
Orbotech, Ltd.*	18,800	397,996
<i>Internet Software &amp; Services (0.6%)</i>		
Check Point Software Technologies, Ltd.*	28,200	694,566
<i>Pharmaceuticals (1.3%)</i>		
Teva Pharmaceutical Industries, Ltd. ADR\$	50,400	1,504,944
<b>TOTAL ISRAEL</b>		<u>3,823,206</u>
<b>Malaysia (5.1%)</b>		
<i>Banks (0.8%)</i>		
Commerce Asset-Holding Berhad	732,200	905,007
<i>Diversified Financials (1.3%)</i>		
Public Bank Berhad	824,800	1,541,063
<i>Diversified Telecommunication Services (1.2%)</i>		
Telekom Malaysia Berhad	451,500	1,378,543
<i>Media (0.9%)</i>		
Astro All Asia Networks PLC*	707,900	1,004,980
<i>Wireless Telecommunication Services (0.9%)</i>		
Maxis Communications Berhad	429,000	1,056,042
<b>TOTAL MALAYSIA</b>		<u>5,885,635</u>
<b>Mexico (6.3%)</b>		
<i>Beverages (0.7%)</i>		
Fomento Economico Mexicano SA de CV ADR	6,400	336,704
Grupo Modelo SA de CV Series C	164,600	452,735
		<u>789,439</u>
<i>Construction &amp; Engineering (0.4%)</i>		
Empresas ICA Sociedad Controladora SA de CV*	1,348,000	519,996
<i>Construction Materials (0.4%)</i>		
Cemex SA de CV ADR	12,361	450,188
<i>Diversified Telecommunication Services (0.8%)</i>		
Telefonos de Mexico SA de CV ADR	22,600	866,032

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2004

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS</b>		
<b>Mexico</b>		
<i>Food Products (0.3%)</i>		
Grupo Bimbo SA de CV Series A	144,300	\$ 364,536
<i>Household Durables (0.5%)</i>		
Consorcio ARA SA de CV*	184,500	554,477
<i>Metals &amp; Mining (0.7%)</i>		
Grupo Mexico SA de CV Series B*	159,050	802,598
<i>Real Estate (0.8%)</i>		
Desarrolladora Homex SA de CV ADR*§	24,300	574,695
Urbi Desarrollos Urbanos SA de CV	81,924	357,917
		<u>932,612</u>
<i>Wireless Telecommunication Services (1.7%)</i>		
America Movil SA de CV ADR, Series L	37,458	1,960,926
		<u>7,240,804</u>
<b>Peru (0.5%)</b>		
<i>Metals &amp; Mining (0.5%)</i>		
Compania de Minas Buenaventura SA ADR	27,300	625,170
		<u>625,170</u>
<b>Russia (4.0%)</b>		
<i>Banks (0.5%)</i>		
Sberbank RF	1,100	540,100
<i>Investment Company (1.2%)</i>		
Novy Neft II, Ltd.	102,900	1,390,858
<i>Oil &amp; Gas (1.4%)</i>		
Lukoil ADR§	12,900	1,580,250
<i>Wireless Telecommunication Services (0.9%)</i>		
AO VimpelCom ADR*	29,000	1,048,060
		<u>4,559,268</u>
<b>Singapore (0.5%)</b>		
<i>Chemicals (0.5%)</i>		
Hi-P International, Ltd.§	511,000	526,484
		<u>526,484</u>
<b>South Africa (11.8%)</b>		
<i>Banks (2.8%)</i>		
FirstRand, Ltd.	237,800	563,502
Standard Bank Group, Ltd.	230,700	2,694,486
		<u>3,257,988</u>
<i>Diversified Telecommunication Services (0.5%)</i>		
Telkom South Africa, Ltd.	34,970	608,309
<i>Household Durables (1.1%)</i>		
Steinhoff International Holdings, Ltd.	576,097	1,288,453

See Accompanying Notes to Financial Statements.



**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2004

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS</b>		
<b>South Africa</b>		
<i>Industrial Conglomerates (1.0%)</i>		
Bidvest Group, Ltd.	77,000	\$ 1,098,920
<i>Insurance (0.8%)</i>		
Sanlam, Ltd.	388,200	895,780
<i>Media (1.2%)</i>		
Naspers, Ltd. N Shares	102,400	1,363,213
<i>Metals &amp; Mining (1.8%)</i>		
AngloGold Ashanti, Ltd.	13,800	496,574
Impala Platinum Holdings, Ltd.	8,100	691,404
Kumba Resources, Ltd.	112,436	880,932
		<u>2,068,910</u>
<i>Oil &amp; Gas (1.4%)</i>		
Sasol	76,500	1,646,647
<i>Paper &amp; Forest Products (0.4%)</i>		
Sappi, Ltd.	31,500	460,735
<i>Specialty Retail (0.8%)</i>		
JD Group, Ltd.	75,800	912,224
<b>TOTAL SOUTH AFRICA</b>		<u>13,601,179</u>
<b>South Korea (14.9%)</b>		
<i>Airlines (0.9%)</i>		
Korean Air Lines Company, Ltd.*	59,980	1,092,596
<i>Auto Components (0.6%)</i>		
Hyundai Mobis	11,570	730,123
<i>Automobiles (0.8%)</i>		
Hyundai Motor Company, Ltd.	17,210	919,544
<i>Banks (1.0%)</i>		
Shinhan Financial Group Company, Ltd.	50,200	1,126,736
<i>Electric Utilities (1.6%)</i>		
Korea Electric Power Corp.	69,610	1,800,193
<i>Food Products (0.4%)</i>		
Pulmuone Company, Ltd.	9,500	475,095
<i>Household Durables (1.2%)</i>		
LG Electronics, Inc.§	22,440	1,387,769
<i>Industrial Conglomerates (0.7%)</i>		
GS Holdings Corp.*	36,000	778,980
<i>Internet Software &amp; Services (0.7%)</i>		
NCsoft Corp.*	9,330	751,268
<i>Semiconductor Equipment &amp; Products (5.5%)</i>		
Samsung Electronics Company, Ltd.	14,600	6,343,708

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2004

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS</b>		
<b>South Korea</b>		
<i>Wireless Telecommunication Services (1.5%)</i>		
SK Telecom Company, Ltd.	4,100	\$ 781,489
SK Telecom Company, Ltd. ADR\$	44,300	985,675
		<u>1,767,164</u>
<b>TOTAL SOUTH KOREA</b>		<u>17,173,176</u>
<b>Taiwan (11.9%)</b>		
<i>Automobiles (1.2%)</i>		
China Motor Corp.	1,077,000	1,366,382
<i>Banks (2.2%)</i>		
E.Sun Financial Holding Company, Ltd.	1,320,000	1,098,234
Mega Financial Holding Company, Ltd.	1,599,000	1,104,144
Taishin Financial Holdings Company, Ltd.	298,219	280,385
		<u>2,482,763</u>
<i>Computers &amp; Peripherals (2.3%)</i>		
Advantech Company, Ltd.	432,394	1,054,393
Compal Electronics, Inc.	1,072,000	1,072,082
LITE-ON IT Corp.	240,000	492,182
		<u>2,618,657</u>
<i>Diversified Financials (0.7%)</i>		
First Financial Holding Company, Ltd.*	962,000	825,635
<i>Electronic Equipment &amp; Instruments (1.0%)</i>		
AU Optronics Corp.*	780,000	1,134,699
<i>Food Products (0.9%)</i>		
Uni-President Enterprises Corp.	1,900,000	996,287
<i>Insurance (0.9%)</i>		
Cathay Financial Holding Company, Ltd.	531,000	1,089,273
<i>Real Estate (1.0%)</i>		
Cathay Real Estate Development Company, Ltd.	1,938,000	1,201,355
<i>Semiconductor Equipment &amp; Products (1.7%)</i>		
Taiwan Semiconductor Manufacturing Company, Ltd.	922,000	1,469,016
United Microelectronics Corp.*	848,662	549,643
		<u>2,018,659</u>
<b>TOTAL TAIWAN</b>		<u>13,733,710</u>
<b>Thailand (5.5%)</b>		
<i>Banks (1.8%)</i>		
Bangkok Bank Public Company, Ltd.	305,000	896,399
Siam City Bank Public Company, Ltd.	1,790,300	1,163,580
		<u>2,059,979</u>
<i>Construction Materials (1.7%)</i>		
Siam Cement Public Company, Ltd.	284,900	2,025,850

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2004

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS</b>		
<b>Thailand</b>		
<i>Oil &amp; Gas (1.1%)</i>		
Thai Oil Public Company, Ltd.	947,700	\$ 1,244,085
<i>Wireless Telecommunication Services (0.9%)</i>		
Advanced Info Service Public Company, Ltd.	364,400	1,003,624
<b>TOTAL THAILAND</b>		<u>6,333,538</u>
<b>Turkey (3.2%)</b>		
<i>Banks (1.9%)</i>		
Akbank T.A.S.	238,733,011	1,478,250
Turkiye Garanti Bankasi AS	203,105,990	641,625
		<u>2,119,875</u>
<i>Diversified Financials (1.3%)</i>		
Koc Holding AS	233,286,000	1,522,371
<b>TOTAL TURKEY</b>		<u>3,642,246</u>
<b>Venezuela (0.6%)</b>		
<i>Diversified Telecommunication Services (0.6%)</i>		
Compania Anonima Nacional Telefonos de Venezuela ADR	30,100	673,939
<b>TOTAL VENEZUELA</b>		<u>673,939</u>
<b>TOTAL COMMON STOCKS</b> (Cost \$77,956,196)		<u>102,386,524</u>
<b>PREFERRED STOCKS (5.6%)</b>		
<b>Brazil (5.6%)</b>		
<i>Banks (1.7%)</i>		
Banco Bradesco SA	37,600	917,632
Banco Itau Holding Financeira SA	6,870	1,032,052
		<u>1,949,684</u>
<i>Chemicals (0.5%)</i>		
Braskem SA Class A	11,700,000	590,286
<i>Diversified Telecommunication Services (0.4%)</i>		
Telemar Norte Leste SA\$	7,300	185,661
Telesp-Telecomunicacoes de Sao Paulo SA	17,500,000	334,055
		<u>519,716</u>
<i>Electric Utilities (0.9%)</i>		
Centrais Electricas Brasileiras SA Class B	29,900,000	441,295
Companhia Energetica de Minas Gerais	22,700,000	554,680
		<u>995,975</u>
<i>Metals &amp; Mining (2.1%)</i>		
Caemi Mineracao e Metalurgia SA*	412,000	353,675
Companhia Vale do Rio Doce ADR	85,300	2,079,614
		<u>2,433,289</u>
<b>TOTAL PREFERRED STOCKS</b> (Cost \$4,321,098)		<u>6,488,950</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2004

	<u>Number of Shares</u>	<u>Value</u>
<b>WARRANTS</b> (1.0%)		
<b>India</b> (1.0%)		
<i>Diversified Financials</i> (1.0%)		
Maruti Udyog, Ltd. Rule 144A, (UBS), expires 10/20/05*‡	106,900	\$ 214,869
National Thermal Power Corporation, Ltd. Rule 144A, (UBS), expires 5/20/05*‡	83,400	889,044
<b>TOTAL WARRANTS</b> (Cost \$964,251)		<u>1,103,913</u>
<b>RIGHTS</b> (0.0%)		
<b>Brazil</b> (0.0%)		
<i>Banks</i> (0.0%)		
Banco Bradesco SA*	1,040	25,150
<i>TOTAL BRAZIL</i>		<u>25,150</u>
<b>Thailand</b> (0.0%)		
<i>Diversified Telecommunication Services</i> (0.0%)		
Telecomasia Corp. Public Company, LTD.*	50,021	0
<i>TOTAL THAILAND</i>		<u>0</u>
<b>TOTAL RIGHTS</b> (Cost \$0)		<u>25,150</u>
<b>SHORT-TERM INVESTMENTS</b> (9.2%)		
State Street Navigator Prime Fund§§	6,197,801	6,197,801
	<b>Par (000)</b>	
State Street Bank and Trust Co. Euro Time Deposit, 1.400%, 1/03/05	\$4,402	4,402,000
<b>TOTAL SHORT-TERM INVESTMENTS</b> (Cost \$10,599,801)		<u>10,599,801</u>
<b>TOTAL INVESTMENTS AT VALUE</b> (104.7%) (Cost \$93,841,346)		120,604,338
<b>LIABILITIES IN EXCESS OF OTHER ASSETS</b> (-4.7%)		<u>(5,380,213)</u>
<b>NET ASSETS</b> (100.0%)		<u>\$115,224,125</u>

**INVESTMENT ABBREVIATIONS**

ADR = American Depositary Receipt

GDR = Global Depositary Receipt

\* Non-income producing security.

‡ Security exempt from registration under Rules 144A of the Securities Act of 1933. These securities may be resold in transaction exempt from registration, normally to qualified institutional buyers. At December 31, 2004, these securities amounted to \$2,336,235 or 2.03% of net assets.

§ Security or portion thereof is out on loan.

§§ Represents security purchased with cash collateral received for securities or loan.

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Statement of Assets and Liabilities**  
December 31, 2004

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**Assets**

Investments at value, including collateral for securities on loan of \$6,197,801 (Cost \$93,841,346) (Note 1)	\$ 120,604,338 <sup>1</sup>
Cash	796
Foreign currency at value (Cost \$1,155,699)	1,177,285
Dividend and interest receivable	228,667
Receivable for portfolio shares sold	24,112
Receivable for investments sold	18,698
Prepaid expenses and other assets	7,002
Total Assets	<u>122,060,898</u>

**Liabilities**

Advisory fee payable (Note 2)	53,915
Administrative services fee payable (Note 2)	22,761
Payable upon return of securities loaned (Note 1)	6,197,801
Deferred foreign tax liability (Note 1)	246,947
Payable for portfolio shares redeemed	152,608
Payable for investments purchased	94,507
Other accrued expenses payable	68,234
Total Liabilities	<u>6,836,773</u>

**Net Assets**

Capital stock, \$0.001 par value (Note 5)	8,697
Paid-in capital (Note 5)	94,391,002
Undistributed net investment income	626,735
Accumulated net realized loss on investments and foreign currency transactions	(6,344,172)
Net unrealized appreciation from investments and foreign currency translations	26,541,863
Net Assets	<u>\$ 115,224,125</u>
Shares outstanding	<u>8,697,212</u>
Net asset value, offering price, and redemption price per share	<u>\$13.25</u>

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<sup>1</sup> Including \$6,024,379 of securities on loan

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Statement of Operations**  
For the Year Ended December 31, 2004

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<b>Investment Income</b> (Note 1)	
Dividends	\$ 2,597,217
Interest	25,138
Securities lending	18,594
Foreign taxes withheld	(345,609)
Total investment income	<u>2,295,340</u>
<b>Expenses</b>	
Investment advisory fees (Note 2)	1,101,320
Administrative services fees (Note 2)	149,078
Custodian fees	83,758
Printing fees (Note 2)	55,805
Legal fees	35,205
Audit fees	22,273
Insurance expense	16,357
Transfer agent fees	6,984
Registration fees	5,048
Trustees' fees	2,602
Commitment fees (Note 3)	2,250
Miscellaneous expense	8,072
Total expenses	<u>1,488,752</u>
Less: fees waived (Note 2)	<u>(255,274)</u>
Net expenses	<u>1,233,478</u>
Net investment income	<u>1,061,862</u>
<b>Net Realized and Unrealized Gain (Loss) from Investments and Foreign Currency Related Items</b>	
Net realized gain from investments (including Thailand Capital Gain Tax of \$324,208)	11,396,948
Net realized loss from foreign currency transactions	(149,372)
Net change in unrealized appreciation (depreciation) from investments	8,081,382
Net change in unrealized appreciation (depreciation) from foreign currency translations	81,075
Net realized and unrealized gain from investments and foreign currency related items	<u>19,410,033</u>
Net increase in net assets resulting from operations	<u>\$20,471,895</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, 2004</b>	<b>For the Year Ended December 31, 2003</b>
<b><i>From Operations</i></b>		
Net investment income	\$ 1,061,862	\$ 492,551
Net realized gain from investments and foreign currency translations	11,247,576	2,835,837
Net change in unrealized appreciation (depreciation) from investments and foreign currency translations	<u>8,162,457</u>	<u>16,797,513</u>
Net increase in net assets resulting from operations	<u>20,471,895</u>	<u>20,125,901</u>
<b><i>From Dividends</i></b>		
Dividends from net investment income	<u>(257,121)</u>	<u>—</u>
Net decrease in net assets resulting from dividends	<u>(257,121)</u>	<u>—</u>
<b><i>From Capital Share Transactions</i></b> (Note 5)		
Proceeds from sale of shares	48,651,946	51,362,392
Reinvestment of dividends	257,121	—
Net asset value of shares redeemed	<u>(27,681,607)</u>	<u>(41,573,809)</u>
Net increase in net assets from capital share transactions	<u>21,227,460</u>	<u>9,788,583</u>
Net increase in net assets	41,442,234	29,914,484
<b><i>Net Assets</i></b>		
Beginning of year	<u>73,781,891</u>	<u>43,867,407</u>
End of year	<u>\$115,224,125</u>	<u>\$73,781,891</u>
Undistributed net investment income	<u>\$ 626,735</u>	<u>\$ 236,881</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Financial Highlights**  
(For a Share of the Portfolio Outstanding Throughout Each Year)

	For the Year Ended December 31,				
	2004	2003	2002	2001	2000
<b>Per share data</b>					
Net asset value, beginning of year	\$ 10.63	\$ 7.44	\$ 8.43	\$ 9.33	\$ 14.18
<b>INVESTMENT OPERATIONS</b>					
Net investment income	0.12	0.07	0.01	0.06	0.23
Net gain (loss) on investments and foreign currency related items (both realized and unrealized)	2.53	3.12	(0.98)	(0.96)	(4.70)
Total from investment operations	2.65	3.19	(0.97)	(0.90)	(4.47)
<b>LESS DIVIDENDS AND DISTRIBUTIONS</b>					
Dividends from net investment income	(0.03)	—	(0.02)	—	(0.20)
Distributions from net realized gains	—	—	—	—	(0.15)
Return of capital	—	—	—	—	(0.03)
Total dividends and distributions	(0.03)	—	(0.02)	—	(0.38)
<b>Net asset value, end of year</b>	<b>\$ 13.25</b>	<b>\$ 10.63</b>	<b>\$ 7.44</b>	<b>\$ 8.43</b>	<b>\$ 9.33</b>
Total return <sup>1</sup>	25.02%	42.88%	(11.56)%	(9.65)%	(31.55)%
<b>RATIOS AND SUPPLEMENTAL DATA</b>					
Net assets, end of year (000s omitted)	\$115,224	\$73,782	\$43,867	\$38,331	\$32,604
Ratio of expenses to average net assets <sup>2</sup>	1.40%	1.40%	1.40%	1.40%	1.42%
Ratio of net investment income to average net assets	1.21%	0.94%	0.13%	0.63%	2.45%
Decrease reflected in above operating expense ratios due to waivers/reimbursements	0.29%	0.41%	0.44%	0.49%	0.27%
Portfolio turnover rate	121%	167%	128%	130%	208%

<sup>1</sup> Total returns are historical and assume changes in share price and reinvestment of all dividends and distributions. Had certain expenses not been reduced during the periods shown, total returns would have been lower.

<sup>2</sup> Interest earned on uninvested cash balances may be used to offset portions of the transfer agent expense. These arrangements resulted in a reduction to the Portfolio's net expense ratio by .02% for the year ended December 31, 2000. The Portfolio's net operating expense ratio after reflecting these arrangements was 1.40% for the year ended December 31, 2000. For the years ended December 31, 2004, 2003, 2002 and 2001, there was no effect on the net operating expense ratio because of transfer agent credits.

See Accompanying Notes to Financial Statements.



**Credit Suisse Trust — Emerging Markets Portfolio**  
**Notes to Financial Statements**  
December 31, 2004

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**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 (the “1940 Act”), and currently offers eight managed investment portfolios of which one, the Emerging Markets 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 “Exchange”) on each day the Exchange is open for business. The Portfolio’s equity investments are valued at market value, which is generally determined using the closing price on the exchange or market on which the security is primarily traded at the time of valuation (the “Valuation Time”). If no sales are reported, equity investments are generally valued at the most recent bid quotation as of the Valuation Time or at the lowest asked quotation in the case of a short sale of securities. Debt securities with a remaining maturity greater than 60 days are valued in accordance with the price supplied 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. Debt obligations that will mature in 60 days or less are valued on the basis of amortized cost, which approximates market value, unless it is determined that using this method would not represent fair value. Securities and other assets for which market quotations are not readily available, or whose values have been materially affected by events occurring before the Portfolio’s Valuation Time but after the close of the securities’ primary markets, 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. The Portfolio may utilize a service provided by an independent third party which has been approved by the Board of Trustees to fair value certain securities.

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

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

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 carryforward, 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 to 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

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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

(“CSAM”), an indirect, wholly-owned subsidiary of Credit Suisse Group, pools available cash into either a short-term variable rate time deposit issued by State Street Bank and Trust Company (“SSB”), the Portfolio’s custodian, or a money market fund advised by CSAM. The short-term time deposit issued by SSB 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 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, 2004, 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 may be pooled together with cash collateral for other funds/portfolios advised by CSAM and may be invested in a variety of investments, including certain CSAM–advised funds, funds advised by SSB, the Portfolio’s securities lending agent, or money market instruments. 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 market value of securities on loan to brokers and the value of collateral held by the Portfolio with respect to such loans at December 31, 2004 is as follows:

<u>Market Value of Securities Loaned</u>	<u>Value of Collateral Received</u>
\$6,024,379	\$6,197,801

Prior to March 17, 2004, Credit Suisse First Boston (“CFSB”), an affiliate of CSAM, had been engaged by the Portfolio to act as the Portfolio’s securities

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

lending agent. The Portfolio earned no income from securities lending through the period ended March 17, 2004.

Effective March 17, 2004, SSB has been engaged by the Portfolio to act as the Portfolio's securities lending agent. The Portfolio's securities lending arrangement provides that the Portfolio and SSB will share the net income earned from securities lending activities, with the Portfolio receiving 70% and SSB receiving 30% of the earnings from the investment of cash collateral or any other securities lending income in accordance with the provisions of the securities lending agency agreement. The Portfolio may also be entitled to certain minimum amounts of income from its securities lending activities. Securities lending income is accrued as earned.

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 and valuation risks.

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 investment 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 capital gains are earned.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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**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, 2004, investment advisory fees earned and voluntarily waived for the Portfolio were \$1,101,320 and \$255,274, respectively. CSAM will not recapture from the Portfolio any fees it waived during the fiscal year ended December 31, 2004.

Credit Suisse Asset Management Limited (CSAM U.K.) ("CSAM Ltd. U.K.") and Credit Suisse Asset Management Limited (CSAM Australia) ("CSAM Ltd. Australia"), each an affiliate of CSAM, are sub-investment advisers to the Portfolio. CSAM Ltd. U.K. and CSAM Ltd. Australia's sub-investment advisory fees are paid by CSAM out of CSAM's net investment advisory fee and are not paid by the Portfolio.

Credit Suisse Asset Management Securities, Inc. ("CSAMSI"), an affiliate of CSAM, and SSB serve as co-administrators to the Portfolio.

For its co-administrative services, CSAMSI currently receives a fee calculated at an annual rate of 0.10% of the average daily net assets of the Portfolio. For the year ended December 31, 2004, co-administrative services fees earned by CSAMSI were \$88,106.

For its co-administrative services, SSB receives a fee, exclusive of out-of-pocket expenses, based upon the following fee schedule 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 subject to an annual minimum fee.

<u>Average Daily Net Assets</u>	<u>Annual Rate</u>
First \$5 billion	0.050% of average daily net assets
Next \$5 billion	0.035% of average daily net assets
Over \$10 billion	0.020% of average daily net assets

For the year ended December 31, 2004, co-administrative services fees earned by SSB (including out-of-pocket expenses) were \$60,972.

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, 2004, Merrill was paid \$11,696 for its services to the Portfolio.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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**Note 3. Line of Credit**

The Portfolio, together with other funds/portfolios advised by CSAM (collectively, the “Participating Funds”), participates in a \$75 million committed, unsecured line of credit facility (“Credit Facility”) for temporary or emergency purposes with Deutsche Bank, A.G. as administrative agent and syndication agent and SSB as operations agent. 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, 2004 and during the year ended December 31, 2004, the Portfolio had no borrowings under the Credit Facility.

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

For the year ended December 31, 2004, purchases and sales of investment securities (excluding short-term investments) were \$121,373,223 and \$103,035,624, respectively.

**Note 5. Capital Share Transactions**

The Trust 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, 2004</u>	<u>For the Year Ended December 31, 2003</u>
Shares sold	4,217,158	6,273,517
Shares issued in reinvestment of dividends	23,459	—
Shares redeemed	<u>(2,483,712)</u>	<u>(5,226,878)</u>
Net increase	<u>1,756,905</u>	<u>1,046,639</u>

On December 31, 2004, the number of shareholders that held 5% or more of the outstanding shares were as follows:

<u>Number of Shareholders</u>	<u>Approximate Percentage of Outstanding Shares</u>
5	92%

Some of the shareholders are omnibus accounts, which hold shares on behalf of individual shareholders.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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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, foreign tax credit adjustments, the mark-to-market of income from Passive Foreign Investment Companies and the recognition of gain from the sale of Passive Foreign Investment Companies.

The tax characteristics of dividends paid during the years ended December 31, 2004 and 2003, respectively, for the Portfolio were as follows:

<u>Ordinary Income</u>	
<u>2004</u>	<u>2003</u>
\$257,121	\$ —

At December 31, 2004, the components of distributable earnings on a tax basis for the Portfolio were as follows:

Undistributed net investment income	\$ 986,118
Accumulated net realized loss	(5,569,803)
Unrealized appreciation	25,457,734
Undistributed net investment loss-other	<u>(49,623)</u>
	<u>\$20,824,426</u>

At December 31, 2004, the Portfolio had capital loss carryforwards available to offset possible future capital gains as follows:

<u>Expires December 31, 2010</u>
\$5,569,803

During the tax year ended December 31, 2004 the Portfolio has utilized \$11,214,682 of the capital loss carryforward.

Under current tax law, certain capital 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, 2004, the Portfolio elected to defer net losses arising between November 1, 2004 and December 31, 2004 as follows:

<u>Currency</u>	<u>PFIC</u>
\$43,507	\$6,116

As of December 31, 2004, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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**Note 6. Federal Income Taxes**

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 appreciation from investments were \$94,925,475, \$26,122,357, \$(443,494) and \$25,678,863, respectively.

At December 31, 2004, the Portfolio reclassified \$414,887 from accumulated net investment income to accumulated net realized loss from investments, to adjust for current year permanent book/tax differences which arose principally from differing book/tax treatments of foreign currency transactions, foreign tax credit adjustments, and the sale of Passive Foreign Investment Companies. Net assets were not affected by these reclassifications.

**Note 7. Contingencies**

In the normal course of business, the Portfolio may provide general indemnifications pursuant to certain contracts and organizational documents. The Portfolio's maximum exposure under these arrangements is dependent on future claims that may be made against the Portfolio and, therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.



**Credit Suisse Trust — Emerging Markets Portfolio**  
**Report of Independent Registered Public Accounting Firm**

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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 Emerging Markets Portfolio (the "Portfolio"), a portfolio of the Credit Suisse Trust, at December 31, 2004, 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards 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, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland  
February 7, 2005

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

<u>Name, Address and Date of Birth</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  Date of Birth: - 04/23/32	Trustee, Nominating and Audit Committee Member	Since 1999	Currently retired	41	None
Jeffrey E. Garten Box 208200 New Haven, Connecticut 06520-8200  Date of Birth: 10/29/46	Trustee, Nominating 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 from November 1995 to present.	40	Director of Aetna, Inc. (insurance company); Director of Calpine Corporation (energy provider); Director of CarMax Group (used car dealers).
Peter F. Krogh 301 ICC Georgetown University Washington, DC 20057  Date of Birth: 02/11/37	Trustee, Nominating Committee Chairman 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 from June 1995 to present.	40	Director of Carlisle Companies Incorporated (diversified manufacturing company).
James S. Pasman, Jr. c/o Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 12/20/30	Trustee, Nominating and Audit Committee Member	Since 1999	Currently retired	42	Director of Education Management Corp.

<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 of the Trust on February 6, 1998. He resigned as Trustee on February 3, 2000, and was subsequently re-appointed on December 21, 2000.

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

<b>Name, Address and Date of Birth</b>	<b>Position(s) Held with Trust</b>	<b>Term of Office' and Length of Time Served</b>	<b>Principal Occupation(s) During Past Five Years</b>	<b>Number of Portfolios in Fund Complex Overseen by Trustee</b>	<b>Other Directorships Held by Trustee</b>
<b>Independent Trustees</b>					
Steven N. Rappaport Lehigh Court, LLC 40 East 52 <sup>nd</sup> Street New York, New York 10022  Date of Birth: 07/10/48	Lead Trustee, Nominating Committee Member and Audit Committee Chairman	Since 1999	Partner of Lehigh Court, LLC and RZ Capital (private investment firms) from July 2002 to present; Transition Adviser to SunGard Securities Finance, Inc. from February 2002 to July 2002; President of SunGard Securities Finance, Inc. from 2001 to February 2002; President of Loanet, Inc. (on-line accounting service) from 1997 to 2001.	42	Director of Presstek, Inc. (digital imaging technologies company); Director of Wood Resources, LLC. (plywood manufacturing company).
<b>Interested Trustees</b>					
Michael E. Kenneally <sup>3</sup> Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 03/30/54	Chairman and Chief Executive Officer	Since 2004	Chairman and Global Chief Executive Officer of CSAM since 2003; Chairman and Chief Investment Officer of Banc of America Capital Management from 1998 to March 2003.	44	None
William W. Priest <sup>4</sup> Epoch Investment Partners 667 Madison Avenue New York, New York 10021  Date of Birth: 09/24/41	Trustee	Since 1999	Chief Executive Officer of J Net Enterprises, Inc. (technology holdings company) since June 2004; Chief Executive Officer of Epoch Investment Partners, Inc. since April 2004; Co-Managing Partner, Steinberg Priest & Sloane Capital Management, LLC from 2001 to March 2004; Chairman and Managing Director of CSAM from 2000 to February 2001; Chief Executive Officer and Managing Director of CSAM from 1990 to 2000.	47	Director of Globe Wireless, LLC (maritime communication company); Director of InfraRed X (medical device company); Director of J Net Enterprises, Inc.

<sup>3</sup> Mr. Kenneally is a Trustee who is an "interested person" of the Trust as defined in the 1940 Act because he is an officer of CSAM.

<sup>4</sup> Mr. Priest is a Trustee who is an "interested person" of the Trust as defined in the 1940 Act because he provided consulting services to CSAM within the last two years (ended 12/31/02).

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

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<b>Name, Address and Date of Birth</b>	<b>Position(s) Held with Trust</b>	<b>Term of Office<sup>1</sup> and Length of Time Served</b>	<b>Principal Occupation(s) During Past Five Years</b>
<b>Officers</b>			
Michael A. Pignataro Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 11/15/59	Chief Financial Officer and Treasurer	Since 1999	Director and Director of Fund Administration of CSAM; Associated with CSAM since 1984; Officer of other Credit Suisse Funds.
Emidio Morizio Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 09/21/66	Chief Compliance Officer	Since 2004	Director and Global Head of Compliance of CSAM; Associated with CSAM since July 2000; Vice President and Director of Compliance of Forstmann-Leff Associates from 1998 to June 2000; Officer of other Credit Suisse Funds.
Ajay Mehra Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 08/14/70	Chief Legal Officer	Since 2004	Director and Deputy General Counsel of CSAM since September 2004; Senior Associate of Shearman & Sterling LLP from September 2000 to September 2004; Senior Counsel of the SEC Division of Investment Management from June 1997 to September 2000; Officer of other Credit Suisse Funds.
J. Kevin Gao Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 10/13/67	Vice President and Secretary	Since 2004	Vice President and legal counsel of CSAM; Associated with CSAM since July 2003; Associated with the law firm of Willkie Farr & Gallagher LLP from 1998 to 2003; Officer of other Credit Suisse Funds.
Robert M. Rizza Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 12/09/65	Assistant Treasurer	Since 2002	Assistant Vice President of CSAM since January 2001; Associated with CSAM since 1998; Officer of other Credit Suisse Funds.

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**  
**Tax Information Letter (unaudited)**  
December 31, 2004

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**Important Tax Information for Corporate Shareholders**

During the fiscal year ended December 31, 2004, the Portfolio distributed \$2,597,217 of foreign source income on which the Portfolio paid foreign taxes of \$669,817. This information is being furnished to you pursuant to notice requirements of Section 853(a) and 855(d) of the Internal Revenue Code of 1986, as amended (the "Code"), and the Treasury Regulations thereunder.

Corporate Shareholders should note for the year ended December 31, 2004, the percentage of the Portfolio's investment income (i.e., net investment income plus short-term capital gains) that qualified for the intercorporate dividends received deduction is 0%.

**Credit Suisse Trust — Emerging Markets Portfolio**  
**Proxy Policy and Portfolio Holdings Information**

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Information regarding how the Portfolio voted proxies related to its portfolio securities during the 12-month period ended June 30, 2004 as well as the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities are available:

- By calling 1-800-222-8977
- On the Portfolio's website, [www.csam.com/us](http://www.csam.com/us)
- On the website of the Securities and Exchange Commission, <http://www.sec.gov>.

The Portfolio files a complete schedule of its portfolio holdings for the first and third quarters of its fiscal year with the SEC on Form N-Q. The Portfolio's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.

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

**CREDIT** | ASSET  
**SUISSE** | MANAGEMENT

CREDIT SUISSE ASSET MANAGEMENT SECURITIES, INC., DISTRIBUTOR.

TREMK-2-1204

# **CREDIT SUISSE FUNDS**

## Annual Report

December 31, 2004

### **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.

The Trust's investment objectives, risks, charges and expenses (which should be considered carefully before investing), and more complete information about the Trust, are provided in the *Prospectus*, 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 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, 2004; 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. Portfolio investments are subject to investment risks, including loss of your investment.*

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Annual Investment Adviser's Report**  
December 31, 2004 (unaudited)

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January 26, 2005

Dear Shareholder:

For the 12 months ended December 31, 2004, Credit Suisse Trust — Global Post-Venture Capital Portfolio<sup>1</sup> (the "Portfolio") had a gain of 17.99%, versus increases of 15.48% for the Russell MidCap<sup>®</sup> Growth Index<sup>2</sup> and 12.84% for the Morgan Stanley Capital International World Index.<sup>3</sup>

Shareholders should be aware that effective on or about February 21, 2005, the Portfolio will change its investment strategies so that, under normal market conditions, the Portfolio will invest at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of small companies from at least three countries, including the US. In connection with this change, the Portfolio will change its name to "Credit Suisse Trust — Global Small Cap Portfolio."

**The Market: Soft summer, strong fourth quarter**

The US equity market began the period on a positive note, continuing a rally fueled by optimism over the economy and corporate profit growth. However, the market quickly encountered headwinds, mostly in the form of domestic and international political uncertainty, worries over rising interest rates and a surge in oil prices. Stocks languished into late October, but ended the year on a bright note when a decisive presidential election, better employment numbers and benign inflation helped ease risk concerns.

Nearly all markets outside the US had positive returns for the period, with local results generally lifted for dollar-based investors as most major currencies strengthened versus the US dollar.

**Strategic Review: Outperformance driven by stock selection**

The Portfolio had a good showing in both absolute and relative terms, aided by favorable stock selection in the technology sector. Our holdings had a collective double-digit gain, amid a lackluster environment for technology stocks globally. Tessera Technologies (1.7% of the Portfolio as of December 31, 2004), an intellectual property rights company catering to electronics chip makers, was a standout, benefiting from a favorable settlement in a copyright infringement dispute. The Portfolio's health care stocks also outperformed, led by Sepracor (1.9% of the Portfolio as of December 31, 2004), which was buoyed by the late-period FDA approval of its new insomnia drug. On the negative side regarding relative return, the Portfolio's consumer staples and industrial holdings underperformed.

With respect to noteworthy recent portfolio activity, our purchases included Formfactor (0.6% of the Portfolio as of December 31, 2004), a leader in an emerging segment within the semiconductor capital equipment industry. The

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Annual Investment Adviser's Report (continued)**  
December 31, 2004 (unaudited)

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company manufactures wafer probe cards, which are used in the testing stage of semiconductor chip production. Our investment was based in part on our confidence in the company's new management team. We also purchased Herbalife (1.6% of the Portfolio as of December 31, 2004), a US-based distributor of health care products. The company plans a major expansion into China in 2005, which we think could be a source of sales and earnings growth going forward. Our sales late in the period included Urban Outfitters. The stock had strong performance in 2004, making it expensive based on our view of same-store sales comparisons as 2005 progresses.

**Going Forward: Bottom-up approach to venture-backed companies**

We intend to continue to narrow our large overweighting in the consumer discretionary area, especially in the US. After almost five years of uninterrupted growth in spending, US consumer buying patterns have begun to slow; we find apparel retail less attractive than other areas of consumer discretionary. At the same time, we have been increasing our exposure to hotels and entertainment companies, in the view that travel could pick up in 2005 in part due to increased tourism fueled by a weaker US dollar.

As always, we maintain a bottom-up stock selection process that emphasizes companies we believe possess compelling business models, solid finances and the potential to deliver consistent earnings growth.

The Credit Suisse Global Post-Venture Capital Team

Calvin E. Chung  
Leo M. Bernstein  
Harry M. Jaffe  
Chris Matyszewski

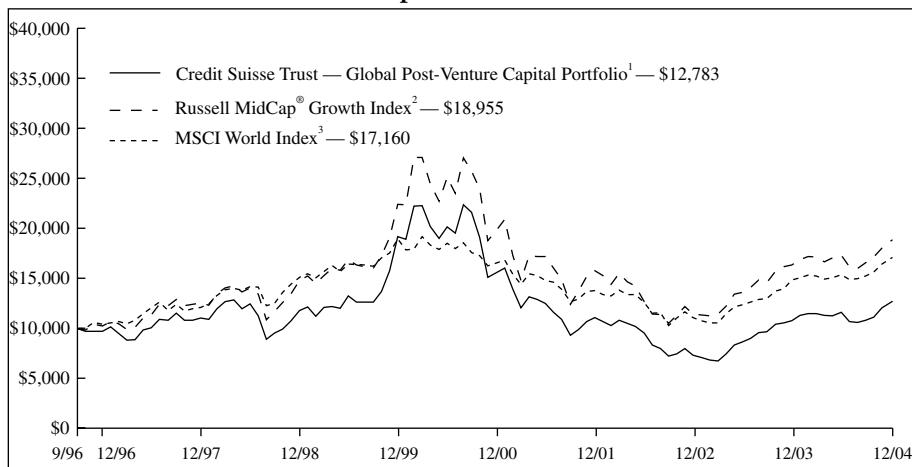
Credit Suisse Asset Management, LLC (CSAM)

*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.*

*In addition to historical information, this report contains forward-looking statements, which may concern, among other things, domestic and foreign market, industry and economic trends and developments and government regulation and their potential impact on the Portfolio's investments. These statements are subject to risks and uncertainties and actual trends, developments and regulations in the future and their impact on the Portfolio could be materially different from those projected, anticipated or implied. The Portfolio has no obligation to update or revise forward-looking statements.*

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Annual Investment Adviser's Report (continued)**  
 December 31, 2004 (unaudited)

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



**Average Annual Returns as of December 31, 2004<sup>1</sup>**

<u>1 Year</u>	<u>5 Years</u>	<u>Since Inception</u>
17.99%	(7.87)%	3.02%

Returns represent past performance and include change in share price and reinvestment of dividends and capital gains. **Past performance cannot guarantee future results.** The current performance of the Portfolio may be lower or higher than the figures shown. Returns and share price will fluctuate, and redemption value may be more or less than 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. Performance includes the effect of deducting expenses, but does not include charges and expenses attributable to any particular variable contract or Plan. Accordingly, the Prospectus of the sponsoring Participating Insurance Company separate account or Plan documents or other informational materials supplied by Plan sponsors should be carefully reviewed for information on relevant charges and expenses. Excluding these charges and expenses from quotations of performance has the effect of increasing the performance quoted, and the effect of these charges should be considered when comparing performance to that of other mutual funds. Performance information current to the most recent month-end is available at [www.csam.com/us](http://www.csam.com/us).

<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 Russell Midcap<sup>®</sup> Growth Index measures the performance of those companies in the Russell Midcap<sup>®</sup> Index with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000<sup>®</sup> Growth Index. 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 Morgan Stanley Capital International 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. Investors cannot invest directly in an index.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Annual Investment Adviser's Report (continued)**  
December 31, 2004 (unaudited)

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**Information About Your Portfolio's Expenses**

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section and which would result in higher total expenses. The following table is intended to help you understand your ongoing expenses of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The table is based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The table illustrates your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expense you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs, such as sales charges (loads) or redemption fees. If these transaction costs had been included, your costs would have been higher. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expenses of owning different funds.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Annual Investment Adviser's Report (continued)**  
December 31, 2004 (unaudited)

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**Expenses and Value of a \$1,000 Investment**  
**for the six-month period ended December 31, 2004**

**Actual Portfolio Return**

Beginning Account Value 7/01/04	\$1,000.00
Ending Account Value 12/31/04	\$1,095.30
Expenses Paid per \$1,000*	\$ 7.37

**Hypothetical 5% Portfolio Return**

Beginning Account Value 7/01/04	\$1,000.00
Ending Account Value 12/31/04	\$1,018.10
Expenses Paid per \$1,000*	\$ 7.10

**Annualized Expense Ratios\*** 1.40%

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\* Expenses are equal to the Portfolio's annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half year period, then divided by 366.

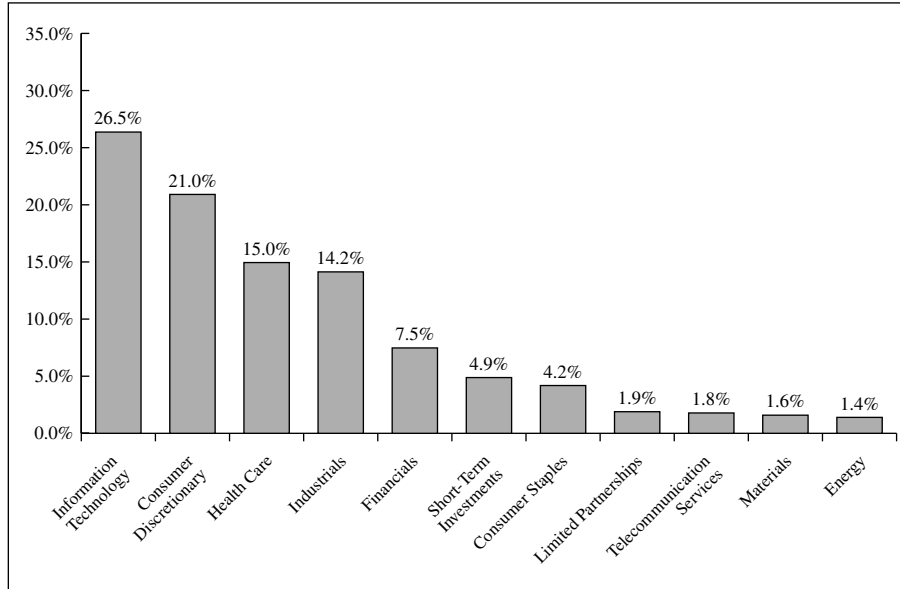
The "Expenses Paid per \$1,000" and the "Annualized Expense Ratios" in the tables are based on actual expenses paid by the Portfolio during the period, net of fee waivers and/or expense reimbursements. If those fee waivers and/or expense reimbursements had not been in effect, the Portfolio's actual expenses would have been higher.

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

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Annual Investment Adviser's Report (continued)**  
December 31, 2004 (unaudited)

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**SECTOR BREAKDOWN\***



\* The Portfolio's sector breakdown is expressed as a percentage of total investments (excluding security lending collateral) and may vary over time.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Schedule of Investments**  
December 31, 2004

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS</b> (91.8%)		
<b>Australia</b> (0.9%)		
<i>Machinery</i> (0.9%)		
Bradken, Ltd.*	449,431	\$ 972,373
<b>TOTAL AUSTRALIA</b>		<u>972,373</u>
<b>Canada</b> (4.5%)		
<i>Computers &amp; Peripherals</i> (1.4%)		
ATI Technologies, Inc.*	79,600	1,543,444
<i>Leisure Equipment &amp; Products</i> (1.5%)		
Mega Bloks*	64,960	1,032,832
Mega Bloks, Rule 144A*‡	37,100	589,872
		<u>1,622,704</u>
<i>Specialty Retail</i> (1.6%)		
Gildan Activewear, Inc. Class A*	52,500	1,784,475
<b>TOTAL CANADA</b>		<u>4,950,623</u>
<b>China</b> (3.3%)		
<i>Airlines</i> (1.2%)		
Air China, Ltd. Series H*	3,390,000	1,308,426
<i>Communications Equipment</i> (0.0%)		
ZTE Corp.*	12,600	40,769
<i>Internet Software &amp; Services</i> (2.1%)		
Netease.com, Inc. ADR*§	13,650	721,130
Shanda Interactive Entertainment, Ltd. ADR*§	37,095	1,576,537
		<u>2,297,667</u>
<b>TOTAL CHINA</b>		<u>3,646,862</u>
<b>Denmark</b> (1.3%)		
<i>Electrical Equipment</i> (1.3%)		
Vestas Wind Systems AS*	119,200	1,481,138
<b>TOTAL DENMARK</b>		<u>1,481,138</u>
<b>France</b> (2.5%)		
<i>Office Electronics</i> (2.5%)		
Neopost SA	35,835	2,785,659
<b>TOTAL FRANCE</b>		<u>2,785,659</u>
<b>Germany</b> (0.6%)		
<i>Biotechnology</i> (0.6%)		
Epigenomics AG*§	53,020	624,824
<b>TOTAL GERMANY</b>		<u>624,824</u>

See Accompanying Notes to Financial Statements.



**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2004

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS</b>		
<b>Ireland (1.8%)</b>		
<i>Airlines (1.8%)</i>		
Ryanair Holdings PLC*	80,300	\$ 573,336
Ryanair Holdings PLC ADR*§	33,580	1,368,385
<b>TOTAL IRELAND</b>		<u>1,941,721</u>
<b>Israel (1.3%)</b>		
<i>Internet Software &amp; Services (1.3%)</i>		
Check Point Software Technologies, Ltd.*	57,200	1,408,836
<b>TOTAL ISRAEL</b>		<u>1,408,836</u>
<b>Japan (10.0%)</b>		
<i>Chemicals (1.6%)</i>		
Kuraray Company, Ltd.	194,000	1,742,914
<i>Electronic Equipment &amp; Instruments (1.8%)</i>		
Nidec Corp.§	15,900	1,946,775
<i>Hotels, Restaurants &amp; Leisure (1.6%)</i>		
Round One Corp.§	844	1,731,730
<i>Internet Software &amp; Services (1.7%)</i>		
Softbank Corp.§	39,600	1,930,879
<i>Media (1.5%)</i>		
usen Corp.	71,000	1,680,038
<i>Specialty Retail (1.8%)</i>		
USS Company, Ltd.	23,610	1,982,577
<b>TOTAL JAPAN</b>		<u>11,014,913</u>
<b>Netherlands (1.3%)</b>		
<i>Food Products (1.3%)</i>		
Nutreco Holdings NV	53,530	1,470,468
<b>TOTAL NETHERLANDS</b>		<u>1,470,468</u>
<b>Norway (1.3%)</b>		
<i>Electronic Equipment &amp; Instruments (1.3%)</i>		
Tandberg ASAS	111,030	1,380,470
<b>TOTAL NORWAY</b>		<u>1,380,470</u>
<b>South Korea (1.6%)</b>		
<i>Machinery (1.6%)</i>		
Samsung Heavy Industries Company, Ltd.	282,300	1,756,081
<b>TOTAL SOUTH KOREA</b>		<u>1,756,081</u>
<b>Sweden (4.2%)</b>		
<i>Healthcare Equipment &amp; Supplies (2.4%)</i>		
Getinge AB Class B§	216,400	2,691,990

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2004

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS</b>		
<b>Sweden</b>		
<i>Machinery (1.8%)</i>		
Alfa Laval AB\$	119,800	\$ 1,936,157
TOTAL SWEDEN		<u>4,628,147</u>
<b>Switzerland (1.7%)</b>		
<i>Healthcare Equipment &amp; Supplies (1.7%)</i>		
Nobel Biocare Holding AG	10,328	<u>1,866,259</u>
TOTAL SWITZERLAND		<u>1,866,259</u>
<b>United Kingdom (13.2%)</b>		
<i>Automobile Parts &amp; Equipment (2.0%)</i>		
Halfords Group PLC	374,720	<u>2,230,219</u>
<i>Commercial Services &amp; Supplies (2.0%)</i>		
Michael Page International PLC	612,750	<u>2,196,896</u>
<i>Diversified Telecommunication Services (1.7%)</i>		
COLT Telecom Group PLC*§	2,133,580	<u>1,923,860</u>
<i>Hotels, Restaurants &amp; Leisure (4.1%)</i>		
Enterprise Inns PLC	175,270	2,667,105
William Hill PLC*	167,810	<u>1,818,342</u>
		<u>4,485,447</u>
<i>Insurance (1.6%)</i>		
Admiral Group PLC*	285,780	<u>1,769,459</u>
<i>Software (1.8%)</i>		
Sage Group PLC	500,300	<u>1,940,841</u>
TOTAL UNITED KINGDOM		<u>14,546,722</u>
<b>United States (42.3%)</b>		
<i>Commercial Services &amp; Supplies (1.4%)</i>		
Greenfield Online, Inc.*	47,600	1,046,724
Knoll, Inc.*	29,600	<u>518,000</u>
		<u>1,564,724</u>
<i>Communications Equipment (3.0%)</i>		
Harmonic, Inc.*§	69,400	578,796
Kanbay International, Inc.*§	88,500	<u>2,770,050</u>
		<u>3,348,846</u>
<i>Computers &amp; Peripherals (1.1%)</i>		
Avid Technology, Inc.*	20,200	<u>1,247,350</u>
<i>Construction &amp; Engineering (1.3%)</i>		
Infrasource Services, Inc.*	110,400	<u>1,435,200</u>
<i>Diversified Financials (5.9%)</i>		
Affiliated Managers Group, Inc.*§	29,400	1,991,556
E*TRADE Financial Corp.*	140,800	2,104,960
Franklin Resources, Inc.	34,600	<u>2,409,890</u>
		<u>6,506,406</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2004

	<b>Number of Shares</b>	<b>Value</b>
<i>Electronic Equipment &amp; Instruments (1.0%)</i>		
Broadcom Corp. Class A*	34,600	\$ 1,116,888
<i>Food &amp; Drug Retailing (0.9%)</i>		
Whole Foods Market, Inc.	10,700	1,020,245
<i>Food Products (1.9%)</i>		
Herbalife, Ltd.§	130,000	2,112,500
<i>Healthcare Providers &amp; Services (7.9%)</i>		
AMERIGROUP Corp.*§	22,700	1,717,482
Centene Corp.*	71,400	2,024,190
Pediatrix Medical Group, Inc.*	16,100	1,031,205
Psychiatric Solutions, Inc.*	40,876	1,494,427
United Surgical Partners International, Inc.*§	59,100	2,464,470
		<u>8,731,774</u>
<i>Hotels, Restaurants &amp; Leisure (2.8%)</i>		
Panera Bread Co. Class A*§	27,500	1,108,800
Starwood Hotels & Resorts Worldwide, Inc.	33,000	1,927,200
		<u>3,036,000</u>
<i>Household Durables (1.1%)</i>		
Yankee Candle Company, Inc.*	35,700	1,184,526
<i>Internet Software &amp; Services (1.9%)</i>		
Corillian Corp.*	121,100	595,812
Digitas, Inc.*	157,600	1,505,080
		<u>2,100,892</u>
<i>Media (1.4%)</i>		
Radio One, Inc. Class A*	95,200	1,532,720
<i>Multiline Retail (1.0%)</i>		
Dollar Tree Stores, Inc.*	37,100	1,064,028
<i>Oil &amp; Gas (1.4%)</i>		
Newfield Exploration Co.*	26,000	1,535,300
<i>Pharmaceuticals (2.3%)</i>		
Sepracor, Inc.*§	42,100	2,499,477
<i>Semiconductor Equipment &amp; Products (5.4%)</i>		
Cascade Microtech, Inc.*§	22,500	301,950
Cymer, Inc.*	50,300	1,485,862
FormFactor, Inc.*	30,200	819,628
Integrated Circuit Systems, Inc.*	48,900	1,022,988
Tessera Technologies, Inc.*	60,900	2,266,089
		<u>5,896,517</u>

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Schedule of Investments (continued)**  
December 31, 2004

	<u>Number of Shares</u>	<u>Value</u>
<b>COMMON STOCKS</b>		
<b>United States</b>		
<i>Specialty Retail</i> (0.6%)		
Hot Topic, Inc.*	39,500	\$ 679,005
<b>TOTAL UNITED STATES</b>		<u>46,612,398</u>
<b>TOTAL COMMON STOCKS</b> (Cost \$71,889,957)		<u>101,087,494</u>
<b>PREFERRED STOCKS</b> (0.9%)		
<b>United States</b> (0.9%)		
<i>Consumer Services</i> (0.9%)		
PRN Corp.*†† (Cost \$711,000)	79,000	<u>1,038,850</u>
<b>WARRANT</b> (0.0%)		
<b>United States</b> (0.0%)		
<i>Consumer Services</i> (0.0%)		
PRN Corp. strike \$0.01, expires August 2011*†† (Cost \$0)	18,283	<u>0</u>
<b>LIMITED PARTNERSHIPS</b> (1.9%)		
<b>United States</b> (1.9%)		
<i>Venture Capital</i> (1.9%)		
Austin Ventures VIII L.P.*††	293,335	236,881
CVC European Equity III L.P.*††	696,182	634,954
Madison Dearborn Capital Partners IV, L.P.*††	534,345	440,849
Oak Investment Partners X L.P.*††	1,063,455	<u>734,081</u>
<b>TOTAL LIMITED PARTNERSHIPS</b> (Cost \$2,076,911)		<u>2,046,765</u>
<b>SHORT-TERM INVESTMENTS</b> (24.2%)		
State Street Navigator Prime Fund§§	21,278,466	21,278,466
	<b>Par (000)</b>	
State Street Bank and Trust Co. Euro Time Deposit, 1.400%, 1/03/05	\$5,366	<u>5,366,000</u>
<b>TOTAL SHORT-TERM INVESTMENTS</b> (Cost \$26,644,466)		<u>26,644,466</u>
<b>TOTAL INVESTMENTS AT VALUE</b> (118.8%) (Cost \$101,322,334)		130,817,575
<b>LIABILITIES IN EXCESS OF OTHER ASSETS</b> (-18.8%)		<u>(20,707,983)</u>
<b>NET ASSETS</b> (100.0%)		<u><u>\$110,109,592</u></u>

**INVESTMENT ABBREVIATIONS**

ADR = American Depository Receipt

\* 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, 2004, these securities amounted to a value of \$589,872 or 0.5% of net assets.

†† 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.

§ Security or portion thereof is out on loan.

§§ Represents security purchased with cash collateral received for securities on loan.

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Statement of Assets and Liabilities**  
December 31, 2004

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**Assets**

Investments at value, including collateral for securities on loan of \$21,278,466 (Cost \$101,322,334) (Note 1)	\$130,817,575 <sup>1</sup>
Cash	777
Foreign currency at value (Cost \$200,205)	212,205
Receivable for investments sold	541,729
Dividend and interest receivable	93,622
Receivable for portfolio shares sold	56,031
Prepaid expenses and other assets	14,443
Total Assets	<u>131,736,382</u>

**Liabilities**

Advisory fee payable (Note 2)	113,927
Administrative services fee payable (Note 2)	22,306
Payable upon return of securities loaned (Note 1)	21,278,466
Payable for portfolio shares redeemed	117,155
Payable for investments purchased	45,900
Other accrued expenses payable	49,036
Total Liabilities	<u>21,626,790</u>

**Net Assets**

Capital stock, \$0.001 par value (Note 6)	9,873
Paid-in capital (Note 6)	153,219,267
Accumulated net investment loss	(6,484)
Accumulated net realized loss on investments and foreign currency transactions	(72,621,527)
Net unrealized appreciation from investments and foreign currency translations	29,508,463
Net Assets	<u>\$110,109,592</u>
Shares outstanding	<u>9,873,453</u>
Net asset value, offering price, and redemption price per share	<u>\$11.15</u>

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<sup>1</sup> Including \$20,567,559 of securities on loan.

See Accompanying Notes to Financial Statements.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Statement of Operations**  
For the Year Ended December 31, 2004

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<b>Investment Income</b> (Note 1)	
Dividends	\$ 594,843
Interest	32,365
Securities lending	64,218
Net investment loss allocated from partnerships	(44,455)
Foreign taxes withheld	(62,261)
Total investment income	584,710
<b>Expenses</b>	
Investment advisory fees (Note 2)	1,337,945
Administrative services fees (Note 2)	176,695
Custodian fees	36,422
Legal fees	36,230
Printing fees (Note 2)	28,380
Audit fees	23,090
Insurance expense	16,663
Transfer agent fees	8,037
Commitment fees (Note 3)	2,886
Trustees' fees	2,602
Registration fees	2,227
Miscellaneous expense	6,666
Total expenses	1,677,843
Less: fees waived (Note 2)	(179,344)
Net expenses	1,498,499
Net investment loss	(913,789)
<b>Net Realized and Unrealized Gain from Investments and Foreign Currency Related Items</b>	
Net realized gain from investments	9,259,607
Net realized gain on foreign currency transactions	26,505
Net change in unrealized appreciation (depreciation) from investments	7,344,323
Net change in unrealized appreciation (depreciation) from foreign currency translations	11,420
Net realized and unrealized gain from investments and foreign currency related items	16,641,855
Net increase in net assets resulting from operations	\$15,728,066

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, 2004</b>	<b>For the Year Ended December 31, 2003</b>
<b><i>From Operations</i></b>		
Net investment loss	\$ (913,789)	\$ (683,327)
Net realized gain (loss) on investments and foreign currency transactions	9,286,112	(1,578,432)
Net change in unrealized appreciation (depreciation) from investments and foreign currency translations	<u>7,355,743</u>	<u>30,798,126</u>
Net increase in net assets resulting from operations	<u>15,728,066</u>	<u>28,536,367</u>
<b><i>From Capital Share Transactions</i> (Note 6)</b>		
Proceeds from sale of shares	35,955,192	60,688,150
Net asset value of shares redeemed	<u>(44,150,961)</u>	<u>(47,279,820)</u>
Net increase (decrease) in net assets from capital share transactions	<u>(8,195,769)</u>	<u>13,408,330</u>
Net increase in net assets	7,532,297	41,944,697
<b><i>Net Assets</i></b>		
Beginning of year	<u>102,577,295</u>	<u>60,632,598</u>
End of year	<u>\$110,109,592</u>	<u>\$102,577,295</u>
Undistributed net investment income (loss)	<u>\$ (6,484)</u>	<u>\$ 6,573</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 Year)

	For the Year Ended December 31,				
	2004	2003	2002	2001	2000 <sup>1</sup>
<b>Per share data</b>					
Net asset value, beginning of year	\$ 9.45	\$ 6.40	\$ 9.72	\$ 13.62	\$ 19.26
<b>INVESTMENT OPERATIONS</b>					
Net investment loss	(0.09)	(0.06)	(0.08)	(0.09)	(0.09)
Net gain (loss) on investments and foreign currency related items (both realized and unrealized)	1.79	3.11	(3.24)	(3.81)	(3.56)
Total from investment operations	1.70	3.05	(3.32)	(3.90)	(3.65)
<b>LESS DISTRIBUTIONS</b>					
Distributions from net realized gains	—	—	—	—	(1.99)
<b>Net asset value, end of year</b>	<b>\$ 11.15</b>	<b>\$ 9.45</b>	<b>\$ 6.40</b>	<b>\$ 9.72</b>	<b>\$ 13.62</b>
Total return <sup>2</sup>	17.99%	47.66%	(34.16)%	(28.63)%	(18.94)%
<b>RATIOS AND SUPPLEMENTAL DATA</b>					
Net assets, end of year (000s omitted)	\$110,110	\$102,577	\$60,633	\$160,658	\$168,034
Ratio of expenses to average net assets <sup>3</sup>	1.40%	1.40%	1.40%	1.40%	1.42%
Ratio of net investment loss to average net assets	(0.85)%	(0.94)%	(0.90)%	(0.84)%	(0.75)%
Decrease reflected in above operating expense ratios due to waivers/reimbursements	0.17%	0.23%	0.31%	0.21%	0.11%
Portfolio turnover rate	79%	86%	86%	121%	69%

<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 reinvestment 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 may be used to offset portions of the transfer agent expense. These arrangements resulted in a reduction to the Portfolio's net expense ratio by .02% for the year ended December 31, 2000. The Portfolio's net operating expense ratio after reflecting these arrangements was 1.40% for the year ended December 31, 2000. For the years ended December 31, 2004, 2003, 2002 and 2001, there was no effect on the net operating expense ratio because of transfer agent credits.

See Accompanying Notes to Financial Statements.



**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Notes to Financial Statements**  
December 31, 2004

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**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 (the “1940 Act”), and currently offers eight 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 “Exchange”) on each day the Exchange is open for business. The Portfolio’s equity investments are valued at market value, which is generally determined using the closing price on the exchange or market on which the security is primarily traded at the time of valuation (the “Valuation Time”). If no sales are reported, equity investments are generally valued at the most recent bid quotation as of the Valuation Time or at the lowest asked quotation in the case of a short sale of securities. Debt securities with a remaining maturity greater than 60 days are valued in accordance with the price supplied 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. Debt obligations that will mature in 60 days or less are valued on the basis of amortized cost, which approximates market value, unless it is determined that using this method would not represent fair value. Securities and other assets for which market quotations are not readily available, or whose values have been materially affected by events occurring before the Portfolio’s Valuation Time but after the close of the securities’ primary markets, 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. The Portfolio may utilize a service provided by an independent third party which has been approved by the Board of Trustees to fair value certain securities.

The Portfolio initially values its investments in private-equity portfolios (“Private Funds”) at the amount invested in the Private Funds, less related expenses, where identifiable, unless and until Credit Suisse Asset

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

Management, LLC (“CSAM”) determines that such value does not represent fair value. Thereafter, investments in Private Funds held by the Portfolio are valued at their “fair values” using procedures approved by the Board of Trustees. CSAM shall review daily the Portfolio’s fair valued securities.

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-forward, 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 to make the requisite distributions to its shareholders, which will be sufficient to relieve it from federal income and excise taxes.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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

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 CSAM, an indirect, wholly-owned subsidiary of Credit Suisse Group, pools available cash into either a short-term variable rate time deposit issued by State Street Bank and Trust Company (“SSB”), the Portfolio’s custodian, or a money market fund advised by CSAM. The short-term time deposit issued by SSB 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 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, 2004, 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 pooled together with cash collateral for other funds/portfolios advised by CSAM and may be invested in a variety of investments, including certain CSAM–advised funds, funds advised by SSB, the Portfolio’s securities lending agent or money market instruments. 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.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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

The market value of securities on loan to brokers and the value of collateral held by the Portfolio with respect to such loans at December 31, 2004 is as follow:

<u>Market Value of Securities Loaned</u>	<u>Value of Collateral Received</u>
\$20,567,559	\$21,278,466

Prior to March 17, 2004, Credit Suisse First Boston (“CFSB”), an affiliate of CSAM, had been engaged by the Portfolio to act as the Portfolio’s securities lending agent. The Portfolio earned no income from securities lending through the period ended March 17, 2004.

Effective March 17, 2004, SSB has been engaged by the Portfolio to act as the Portfolio’s securities lending agent. The Portfolio’s securities lending arrangement provides that the Portfolio and SSB will share the net income earned from securities lending activities, with the Portfolio receiving 70% and SSB receiving 30% of the earnings from the investment of cash collateral or any other securities lending income in accordance with the provisions of the securities lending agency agreement. The Portfolio may also be entitled to certain minimum amounts of income from its securities lending activities. Securities lending income is accrued as earned.

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.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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

The Portfolio may invest up to 15% of its net 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, 2004, investment advisory fees earned and voluntarily waived for the Portfolio were \$1,337,945 and \$179,344, respectively. CSAM will not recapture from the Portfolio any fees it waived during the fiscal year ended December 31, 2004.

Credit Suisse Asset Management Limited (CSAM U.K.) ("CSAM Ltd. U.K."), Credit Suisse Asset Management Limited (CSAM Japan) ("CSAM Ltd. Japan") and Credit Suisse Asset Management Limited (CSAM Australia) ("CSAM Ltd. Australia"), each an affiliate of CSAM, are sub-investment advisers to the Portfolio. CSAM Ltd. U.K., CSAM Ltd. Japan and CSAM Ltd. Australia's sub-investment advisory fees are paid by CSAM out of CSAM's net investment advisory fee and are not paid by the Portfolio. As of December 3, 2004, CSAM Ltd. Japan no longer serves as sub-investment adviser to the Portfolio.

Prior to July 30, 2004 (the "Effective Date"), Abbott Capital Management, LLC ("Abbott Capital") served as sub-investment adviser for the Portfolio's assets invested in Private Funds. Pursuant to the sub-advisory agreement between Abbott Capital and CSAM, Abbott Capital was entitled to a quarterly fee from CSAM at the annual rate of 1.00% of the value of the Portfolio's Private Funds as of the end of each calendar quarter, which fee amount or a portion thereof could be waived by Abbott Capital. No compensation was paid by the Portfolio to Abbott Capital for its sub-investment advisory services. As of the Effective Date, Abbott Capital no longer serves as the Portfolio's sub-investment advisor. A portfolio management team at CSAM makes the Portfolio's day-to-day investment decisions with respect to Private Funds. CSAM retains all fees previously payable to Abbott Capital.

Credit Suisse Asset Management Securities, Inc. ("CSAMSI"), an affiliate of CSAM, and SSB serve as co-administrators to the Portfolio.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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

For its co-administrative services, CSAMSI currently receives a fee calculated at an annual rate of 0.10% of the average daily net assets. For the year ended December 31, 2004, co-administrative services fees earned by CSAMSI were \$107,036.

For its co-administrative services, SSB receives a fee, exclusive of out-of-pocket expenses, based upon the following fee schedule 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 subject to an annual minimum fee.

<u>Average Daily Net Assets</u>	<u>Annual Rate</u>
First \$5 billion	0.050% of average daily net assets
Next \$5 billion	0.035% of average daily net assets
Over \$10 billion	0.020% of average daily net assets

For the year ended December 31, 2004, co-administrative services fees earned by SSB (including out-of-pocket expenses) were \$69,659.

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, 2004, Merrill was paid \$13,636 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 \$75 million committed, unsecured line of credit facility ("Credit Facility") for temporary or emergency purposes with Deutsche Bank, A.G. as administrative agent and syndication agent and SSB as operations agent. 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, 2004, and during the year ended December 31, 2004, the Portfolio had no borrowings under the Credit Facility.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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

For the year ended December 31, 2004, purchases and sales of investment securities (excluding short-term investments) were \$80,925,659 and \$91,181,773, respectively.

**Note 5. Restricted Securities**

Certain investments of the Portfolio 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. The table below shows the number of shares held, the acquisition dates, aggregate costs, fair values as of December 31, 2004, the value per share of such securities, the percentage of net assets which the securities represent, the distributions received from each investment and the open commitments. The Portfolio does not have the right to demand that such securities be registered.

Security	Security Type	Number of Shares	Acquisition Date	Cost	Fair Value	Value per Share	Percentage of Net Assets	Distributions Received	Open Commitments
Austin Ventures VIII L.P.	Ltd. Partnership	293,335	7/13/01	\$ 250,513	\$ 236,881	\$ 0.81	0.22%	\$ 39,584	\$ 259,998
CVC European Equity III L.P.	Ltd. Partnership	696,182	9/04/01	531,875	634,954	0.91	0.58%	241,697	303,818
Madison Dearborn Capital Partners IV, L.P.	Ltd. Partnership	534,345	4/02/01	445,996	440,849	0.83	0.40%	96,447	465,655
Oak Investment Partners X L.P.	Ltd. Partnership	1,063,455	1/18/01	848,526	734,081	0.69	0.67%	192,858	436,545
PRN Corp.	Preferred Stock	79,000	8/13/01	711,000	1,038,850	13.15	0.94%	—	—
PRN Corp.	Warrant	18,283	8/14/01	—	—	—	—	—	—
				<u>\$2,787,910</u>	<u>\$3,085,615</u>		<u>2.81%</u>	<u>\$570,586</u>	<u>\$1,466,016</u>

**Note 6. Capital Share Transactions**

The Trust 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, 2004</u>	<u>For the Year Ended December 31, 2003</u>
Shares sold	3,577,338	7,854,852
Shares redeemed	(4,558,615)	(6,480,897)
Net increase (decrease)	<u>(981,277)</u>	<u>1,373,955</u>

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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**Note 6. Capital Share Transactions**

On December 31, 2004, 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	74%

Some of the shareholders are omnibus accounts, which hold shares on behalf of 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, and gains and losses from investments in partnerships.

At December 31, 2004, the components of distributable earnings on a tax basis were as follows:

Accumulated net realized loss	\$(72,621,526)
Unrealized appreciation	29,508,462
Undistributed Ordinary Loss — Other	<u>(6,484)</u>
	<u><u>\$(43,119,548)</u></u>

At December 31, 2004, the Portfolio had capital loss carryforwards available to offset possible future capital gains as follows:

<u>Expires December 31,</u>		
<u>2009</u>	<u>2010</u>	<u>2011</u>
\$48,267,661	\$19,475,667	\$4,878,198

During the tax year ended December 31, 2004, the Portfolio has utilized \$8,989,723 of the capital loss carryforward.

Under current tax law, certain capital 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, 2004 the Portfolio elected to defer net losses arising between November 1, 2004 and December 31, 2004 as follows:

<u>Currency</u>	<u>Capital</u>
\$6,484	\$ —



**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Notes to Financial Statements (continued)**  
December 31, 2004

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**Note 7. Federal Income Taxes**

At December 31, 2004, 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 appreciation from investments were \$101,322,334, \$30,473,029, \$(977,788) and \$29,495,241, respectively.

At December 31, 2004, the Portfolio reclassified \$874,227 from paid-in capital and \$26,505 from accumulated net realized loss from investments to accumulated net investment loss, 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.

**Note 8. Contingencies**

In the normal course of business, the Portfolio may provide general indemnifications pursuant to certain contracts and organizational documents. The Portfolio's maximum exposure under these arrangements is dependent on future claims that may be made against the Portfolio and, therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

**Credit Suisse Trust — Global Post-Venture Capital Portfolio**  
**Report of Independent Registered Public Accounting Firm**

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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 Global Post-Venture Capital Portfolio (the "Portfolio"), a portfolio of the Credit Suisse Trust, at December 31, 2004, 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards 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, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland  
February 7, 2005

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

<u>Name, Address and Date of Birth</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</b>					
Richard H. Francis c/o Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 04/23/32	Trustee, Nominating and Audit Committee Member	Since 1999	Currently retired	41	None
Jeffrey E. Garten Box 208200 New Haven, Connecticut 06520-8200  Date of Birth: 10/29/46	Trustee, Nominating 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 from November 1995 to present.	40	Director of Aetna, Inc. (insurance company); Director of Calpine Corporation (energy provider); Director of CarMax Group (used car dealers).
Peter F. Krogh 301 ICC Georgetown University Washington, DC 20057  Date of Birth: 02/11/37	Trustee, Nominating Committee Chairman 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 from June 1995 to present.	40	Director of Carlisle Companies Incorporated (diversified manufacturing company).
James S. Pasman, Jr. c/o Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 12/20/30	Trustee, Nominating and Audit Committee Member	Since 1999	Currently retired	42	Director of Education Management Corp.

<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 of the Trust on February 6, 1998. He resigned as Trustee on February 3, 2000, and was subsequently re-appointed on December 21, 2000.

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

<u>Name, Address and Date of Birth</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>					
Steven N. Rappaport Lehigh Court, LLC 40 East 52nd Street New York, New York 10022  Date of Birth: 07/10/48	Trustee, Nominating Committee Member and Audit Committee Chairman	Since 1999	Partner of Lehigh Court, LLC and RZ Capital (private investment firms) from July 2002 to present; Transition Adviser to SunGard Securities Finance, Inc. from February 2002 to July 2002; President of SunGard Securities Finance, Inc. from 2001 to February 2002; President of Loanet, Inc. (on-line accounting service) from 1997 to 2001.	42	Director of Presstek, Inc. (digital imaging technologies company); Director of Wood Resources, LLC (plywood manufacturing company).
<b>Interested Trustees</b>					
Michael E. Kenneally <sup>3</sup> Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 03/30/54	Chairman and Chief Executive Officer	Since 2004	Chairman and Global Chief Executive Officer of CSAM since 2003; Chairman and Chief Investment Officer of Banc of America Capital Management from 1998 to March 2003.	44	None
William W. Priest <sup>4</sup> Epoch Investment Partners 667 Madison Avenue New York, New York 10021  Date of Birth: 09/24/41	Trustee	Since 1999	Chief Executive Officer of J Net Enterprises, Inc. (technology holdings company) since June 2004; Chief Executive Officer of Epoch Investment Partners, Inc. since April 2004; Co-Managing Partner, Steinberg Priest & Sloane Capital Management, LLC from 2001 to March 2004; Chairman and Managing Director of CSAM from 2000 to February 2001; Chief Executive Officer and Managing Director of CSAM from 1990 to 2000.	47	Director of Globe Wireless, LLC (maritime communication company); Director of InfraRed X (medical device company); Director of J Net Enterprises, Inc.

<sup>3</sup> Mr. Kenneally is a Trustee who is an “interested person” of the Trust as defined in the 1940 Act because he is an officer of CSAM.

<sup>4</sup> Mr. Priest is a Trustee who is an “interested person” of the Trust as defined in the 1940 Act because he provided consulting services to CSAM within the last two years (ended 12/31/02).

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

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<u>Name, Address and Date of Birth</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>			
Michael A. Pignataro Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 11/15/59	Chief Financial Officer and Treasurer	Since 1999	Director and Director of Fund Administration of CSAM; Associated with CSAM since 1984; Officer of other Credit Suisse Funds.
Emidio Morizio Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 09/21/66	Chief Compliance Officer	Since 2004	Director and Global Head of Compliance of CSAM; Associated with CSAM since July 2000; Vice President and Director of Compliance of Forstmann-Leff Associates from 1998 to June 2000; Officer of other Credit Suisse Funds.
Ajay Mehra Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 08/14/70	Chief Legal Officer	Since 2004	Director and Deputy General Counsel of CSAM since September 2004; Senior Associate of Shearman & Sterling LLP from September 2000 to September 2004; Senior Counsel of the SEC Division of Investment Management from June 1997 to September 2000; Officer of other Credit Suisse Funds.
J. Kevin Gao Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 10/13/67	Vice President and Secretary	Since 2004	Vice President and legal counsel of CSAM; Associated with CSAM since July 2003; Associated with the law firm of Willkie Farr & Gallagher LLP from 1998 to 2003; Officer of other Credit Suisse Funds.
Robert M. Rizza Credit Suisse Asset Management, LLC 466 Lexington Avenue New York, New York 10017-3140  Date of Birth: 12/09/65	Assistant Treasurer	Since 2002	Assistant Vice President of CSAM since January 2001; Associated with CSAM since 1998; Officer of other Credit Suisse Funds.

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 Capital Portfolio  
Proxy Policy and Portfolio Holdings Information**

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Information regarding how the Portfolio voted proxies related to its portfolio securities during the 12-month period ended June 30, 2004 as well as the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities are available:

- By calling 1-800-222-8977
- On the Portfolio's website, [www.csam.com/us](http://www.csam.com/us)
- On the website of the Securities and Exchange Commission, <http://www.sec.gov>.

The Portfolio files a complete schedule of its portfolio holdings for the first and third quarters of its fiscal year with the SEC on Form N-Q. The Portfolio's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.

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P.O. Box 55030, BOSTON, MA 02205-5030  
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# Dreyfus Investment Portfolios, MidCap Stock Portfolio

**ANNUAL REPORT** December 31, 2004



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.

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# Contents

## THE PORTFOLIO

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<b>2</b>	Letter from the Chairman
<b>3</b>	Discussion of Performance
<b>6</b>	Portfolio Performance
<b>8</b>	Understanding Your Portfolio's Expenses
<b>8</b>	Comparing Your Portfolio's Expenses With Those of Other Funds
<b>9</b>	Statement of Investments
<b>15</b>	Statement of Assets and Liabilities
<b>16</b>	Statement of Operations
<b>17</b>	Statement of Changes in Net Assets
<b>19</b>	Financial Highlights
<b>21</b>	Notes to Financial Statements
<b>28</b>	Report of Independent Registered Public Accounting Firm
<b>29</b>	Important Tax Information
<b>30</b>	Board Members Information
<b>32</b>	Officers of the Fund

## FOR MORE INFORMATION

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Back Cover



## LETTER FROM THE CHAIRMAN

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Dear Shareholder:

We are pleased to present this annual report for Dreyfus Investment Portfolios, MidCap Stock Portfolio, covering the 12-month period from January 1, 2004, through December 31, 2004. 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.

2004 represented the second consecutive year of positive stock market performance. Unlike the 2003 rally, however, in which most stocks rose as general business conditions improved, 2004's market performance largely reflected the strengths and weaknesses of individual companies and industries. As a result, fundamental research and professional judgment became more important determinants of mutual fund performance in 2004.

What's ahead for stocks in 2005? No one knows for certain. Positive influences remain in place, including moderately expanding U.S. and global economies and low inflation. Nonetheless, a number of risks — such as rising short-term interest rates, currency fluctuations and generally slowing corporate earnings — could threaten the market environment.

As always, we urge our shareholders to view the stock market from a long-term perspective, measured in years rather than weeks or months. One of the best ways to ensure a long-term perspective is to establish an investment plan with the help of your financial advisor, and review it periodically to track your progress toward your financial goals.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter  
Chairman and Chief Executive Officer  
The Dreyfus Corporation  
January 18, 2005



## 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, 2004, the portfolio's Initial shares produced a total return of 14.48%, and its Service shares produced a total return of 14.23%.<sup>1</sup> This compares with the total return of 16.48% provided by the portfolio's benchmark, the Standard & Poor's MidCap 400 Index, for the same period.<sup>2</sup>

We attribute these results to stronger U.S. and global economic growth, which led to improving business fundamentals and drove stock prices broadly higher. Midcap stocks outperformed the overall market, particularly during the post-election rally during the final months of 2004. The portfolio produced lower returns than its benchmark during the first half of the year due to disappointing returns from a few holdings, particularly in the health care and technology sectors. Although the portfolio performed relatively well compared to the benchmark during the second half of the year, when market sentiment shifted in favor of high-quality, value-oriented stocks, it was not enough to fully offset earlier weakness.

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

The portfolio invests in growth and value stocks of midsize companies, which are chosen through a disciplined process that combines computer modeling techniques, fundamental analysis and risk management.

In selecting securities, our investment team uses a computer model to identify and rank stocks within an industry or sector, based on:

- *value*, or how a stock is priced relative to its perceived intrinsic worth;
- *growth*, in this case the sustainability or growth of earnings; and
- *financial profile*, which measures the financial health of the company.

We then use fundamental analysis to select the most attractive of the higher ranked securities, drawing on a variety of sources, including Wall



Street research and company management. We attempt to manage risk by diversifying across companies and industries, limiting the potential adverse impact from any one stock or industry. The portfolio is structured so that its sector weightings and risk characteristics, such as growth, size, quality and yield, are similar to those of the S&P 400.

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

Fueled by rising industrial demand, higher commodity prices and constrained supplies, energy stocks generated robust gains during the reporting period. The portfolio's energy holdings delivered strong results. Standouts included natural gas providers, such as Southwestern Energy and Questar; refinery operators, such as Valero Energy and Sunoco; oil service companies, such as Unit; and energy reserve holders, such as Houston Exploration and Patina Oil & Gas. Technology holdings, which undermined the portfolio's returns relative to the benchmark during the first few months of the year, improved later in the reporting period. Strong technology performers, such as software developers Digital River, McAfee and Activision, together with timely purchases of other technology holdings, such as Cabot Microelectronics and Lam Research, more than made up for early weakness in holdings such as Cypress Semiconductor.

Individual investments in other sectors further enhanced the portfolio's relative returns. The most noteworthy of these included poultry processor Pilgrim's Pride, which gained value as high-protein, low-carbohydrate diets became more popular; and financial service provider Factset Research Systems, which benefited from strength in financial markets.

On the other hand, the portfolio lost ground to the benchmark in the health care sector. Disadvantageous timing in the purchase of biotechnology stock ImClone Systems hurt performance, while generic drug manufacturer Mylan Laboratories experienced company-specific problems as well as greater pressure from large-cap pharmaceutical competitors. Consumer cyclicals holdings further detracted from the portfolio's relative performance, particularly auto parts retailer Pep

Boys-Manny, Moe & Jack, which faced expansion-related difficulties. Among financial holdings, Knight Trading Group suffered notable declines when the company encountered short-term business challenges.

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

As of the end of the reporting period, we believe we have positioned the portfolio to benefit from the market's recent shift in favor of higher-quality, more value-oriented issues. Specifically, we have placed slightly greater emphasis on value criteria than growth criteria in selecting individual stocks, seeking to invest in financially sound companies characterized by flexible balance sheets, low debt levels and strong cash flows. We have also positioned the portfolio to take advantage of short-term price volatility by opportunistically selling holdings that have appreciated more rapidly than we believe is warranted by their underlying fundamentals. At the same time, we have slightly increased the portfolio's exposure to more volatile stocks, reflecting our current optimism regarding underlying strength in the midcap sector of the stock market and the U.S. economy.

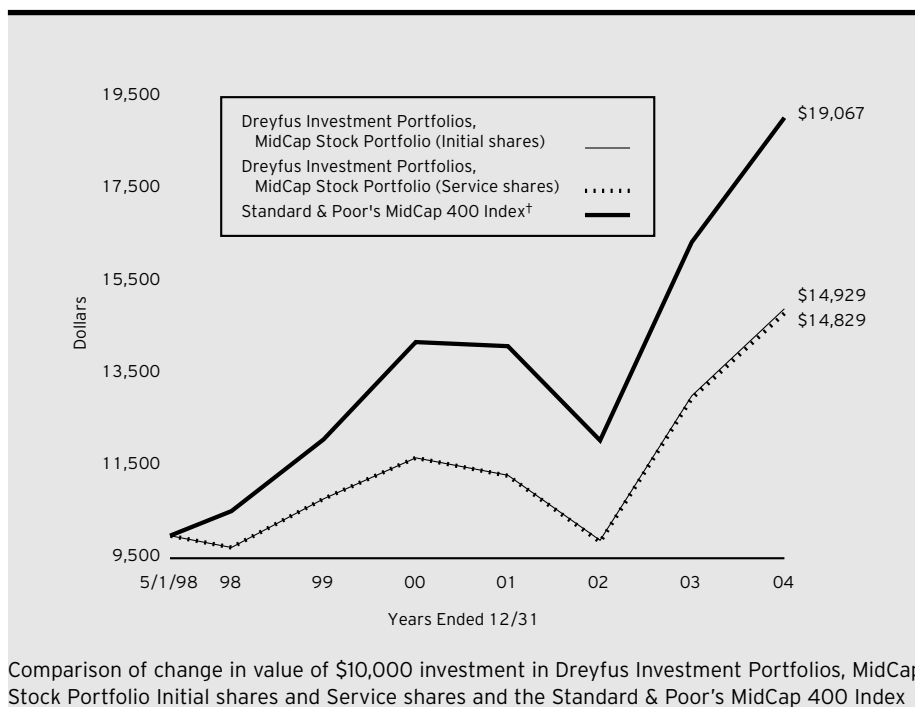
January 18, 2005

*The portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies. Individuals may not purchase shares of the portfolio directly. A variable annuity is an insurance contract issued by an insurance company that enables investors to accumulate assets on a tax-deferred basis for retirement or other long-term goals. The investment objective and policies of Dreyfus Investment Portfolios, MidCap Stock Portfolio made available through insurance products may be similar to other funds/portfolios managed or advised by Dreyfus. However, the investment results of the portfolio may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund/portfolio.*

<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, 2005, 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



### Average Annual Total Returns as of 12/31/04

	Inception Date	1 Year	5 Years	From Inception
<b>Initial shares</b>	<b>5/1/98</b>	<b>14.48%</b>	<b>6.69%</b>	<b>6.19%</b>
<b>Service shares</b>	<b>5/1/98</b>	<b>14.23%</b>	<b>6.54%</b>	<b>6.08%</b>

The data for Service shares includes the results of Initial shares for the period prior to December 31, 2000 (inception date of Service 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 above 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, 2004 (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.*

## UNDERSTANDING YOUR PORTFOLIO'S EXPENSES (Unaudited)

*As a mutual fund investor, you pay ongoing expenses, such as management fees and other expenses. Using the information below, you can estimate how these expenses affect your investment and compare them with the expenses of other funds. You also may pay one-time transaction expenses, including sales charges (loads) and redemption fees, which are not shown in this section and would have resulted in higher total expenses. For more information, see your portfolio's prospectus or talk to your financial adviser.*

### Review your portfolio's expenses

The table below shows the expenses you would have paid on a \$1,000 investment in Dreyfus Investment Portfolios, MidCap Stock Portfolio from July 1, 2004 to December 31, 2004. It also shows how much a \$1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

<b>Expenses and Value of a \$1,000 Investment</b>		
assuming actual returns for the six months ended December 31, 2004		
	<b>Initial Shares</b>	<b>Service Shares</b>
Expenses paid per \$1,000 <sup>†</sup>	\$ 4.18	\$ 5.29
Ending value (after expenses)	\$1,106.90	\$1,105.90

## COMPARING YOUR PORTFOLIO'S EXPENSES WITH THOSE OF OTHER FUNDS (Unaudited)

### Using the SEC's method to compare expenses

The Securities and Exchange Commission (SEC) has established guidelines to help investors assess fund expenses. Per these guidelines, the table below shows your portfolio's expenses based on a \$1,000 investment, assuming a hypothetical 5% annualized return. You can use this information to compare the ongoing expenses (but not transaction expenses or total cost) of investing in the portfolio with those of other funds. All mutual fund shareholder reports will provide this information to help you make this comparison. Please note that you cannot use this information to estimate your actual ending account balance and expenses paid during the period.

<b>Expenses and Value of a \$1,000 Investment</b>		
assuming a hypothetical 5% annualized return for the six months ended December 31, 2004		
	<b>Initial Shares</b>	<b>Service Shares</b>
Expenses paid per \$1,000 <sup>†</sup>	\$ 4.01	\$ 5.08
Ending value (after expenses)	\$1,021.17	\$1,020.11

<sup>†</sup> Expenses are equal to the portfolio's annualized expense ratio of .79% for Initial shares and 1.00% for Service shares, multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).

## STATEMENT OF INVESTMENTS

December 31, 2004

<b>Common Stocks—98.4%</b>	Shares	Value (\$)
<b>Consumer Cyclical—17.0%</b>		
Abercrombie & Fitch, Cl. A	63,100	2,962,545
Aeropostale	73,800 <sup>a</sup>	2,171,934
Applebee's International	100,900	2,668,805
Autoliv	45,200	2,183,160
Bandag	47,300	2,356,013
Barnes & Noble	68,200 <sup>a</sup>	2,200,814
Blyth	83,600	2,471,216
CBRL Group	39,500	1,653,075
CDW	59,100	3,921,285
CEC Entertainment	52,400 <sup>a</sup>	2,094,428
Claire's Stores	111,300	2,365,125
Coach	39,700 <sup>a</sup>	2,239,080
Dollar General	105,000	2,180,850
Foot Locker	64,500	1,736,985
GTECH Holdings	142,000	3,684,900
Gentex	69,400	2,569,188
HNI	40,200	1,730,610
Harman International Industries	19,200	2,438,400
Harrah's Entertainment	44,000	2,943,160
La-Z-Boy	80,600	1,238,822
Lear	28,000	1,708,280
May Department Stores	78,400	2,304,960
Michaels Stores	107,300	3,215,781
NBTY	44,600 <sup>a</sup>	1,070,846
Pacific Sunwear of California	75,600 <sup>a</sup>	1,682,856
Polaris Industries	33,100	2,251,462
Stanley Works	55,000	2,694,450
Tuesday Morning	68,000 <sup>a</sup>	2,082,840
V. F.	48,900	2,708,082
Whole Foods Market	52,400	4,996,340
		<b>72,526,292</b>
<b>Consumer Staples—2.9%</b>		
Estee Lauder Cos., Cl. A	43,000	1,968,110
Fresh Del Monte Produce	74,900 <sup>b</sup>	2,217,789
SUPERVALU	38,000	1,311,760
Sensient Technologies	69,400	1,664,906

## STATEMENT OF INVESTMENTS (continued)

<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Consumer Staples (continued)</b>		
Smithfield Foods	72,000 <sup>a</sup>	2,130,480
Tyson Foods, Cl. A	168,000	3,091,200
		<b>12,384,245</b>
<b>Energy—9.6%</b>		
Amerada Hess	13,600	1,120,368
Cal Dive International	64,600 <sup>a</sup>	2,632,450
Energen	44,200	2,605,590
Grant Prideco	94,600 <sup>a</sup>	1,896,730
Houston Exploration	50,700 <sup>a</sup>	2,854,917
Hydril	43,000 <sup>a</sup>	1,956,930
Magnum Hunter Resources	215,600 <sup>a</sup>	2,781,240
Newfield Exploration	40,300 <sup>a</sup>	2,379,715
Oceaneering International	51,900 <sup>a</sup>	1,936,908
Pogo Producing	59,200	2,870,608
Questar	97,400	4,963,504
Sunoco	27,900	2,279,709
Superior Energy Services	171,300 <sup>a</sup>	2,639,733
TETRA Technologies	56,300 <sup>a</sup>	1,593,290
Unit	51,300 <sup>a</sup>	1,960,173
Valero Energy	52,000	2,360,800
Varco International	70,200 <sup>a</sup>	2,046,330
		<b>40,878,995</b>
<b>Health Care—10.7%</b>		
Apria Healthcare Group	82,000 <sup>a</sup>	2,701,900
Bausch & Lomb	29,800	1,920,908
Beckman Coulter	55,500	3,717,945
Bradley Pharmaceuticals	64,400 <sup>a,b</sup>	1,249,360
Cephalon	45,400 <sup>a</sup>	2,309,952
Charles River Laboratories International	48,100 <sup>a</sup>	2,213,081
Coventry Health Care	79,200 <sup>a</sup>	4,203,936
Diagnostic Products	39,100	2,152,455
Haemonetics	56,800 <sup>a</sup>	2,056,728
Health Net	106,100 <sup>a</sup>	3,063,107
ImClone Systems	20,900 <sup>a</sup>	963,072
Invacare	36,300	1,679,238
Millipore	46,400 <sup>a</sup>	2,311,184

<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Health Care (continued)</b>		
PacifiCare Health Systems	74,100 <sup>a</sup>	4,188,132
PerkinElmer	73,000	1,641,770
Thermo Electron	86,000 <sup>a</sup>	2,596,340
Varian Medical Systems	113,600 <sup>a</sup>	4,912,064
WellChoice	35,300 <sup>a</sup>	1,885,020
		<b>45,766,192</b>
<b>Interest Sensitive—17.4%</b>		
Astoria Financial	66,900	2,673,993
Bank of Hawaii	73,300	3,719,242
Bear Stearns Cos.	27,700	2,833,987
CIT Group	67,300	3,083,686
Catellus Development	71,700	2,194,020
CharterMac	50,900	1,243,996
Cincinnati Financial	56,500	2,500,690
Colonial BancGroup	140,400	2,980,692
Commerce Bancshares	51,450	2,582,790
Dime Bancorp (warrants)	19,900 <sup>a</sup>	3,781
Doral Financial	57,600	2,836,800
Everest Re Group	47,300	4,236,188
Fidelity National Financial	111,600	5,096,772
First American	99,300	3,489,402
General Growth Properties	53,200	1,923,712
Hibernia, Cl. A	106,300	3,136,913
Huntington Bancshares	89,800	2,225,244
Investors Financial Services	80,900	4,043,382
Jefferies Group	53,300	2,146,924
Lincoln National	57,600	2,688,768
New Century Financial	42,600 <sup>b</sup>	2,722,566
New York Community Bancorp	178,700	3,675,859
Northwest Bancorp	48,100	1,206,829
Phoenix Cos.	143,500 <sup>b</sup>	1,793,750
Trizec Properties	99,800	1,888,216
Unitrin	52,800	2,399,760
Webster Financial	49,400	2,501,616
Weingarten Realty Investors	57,600	2,309,760
		<b>74,139,338</b>



## STATEMENT OF INVESTMENTS (continued)

<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Producer Goods—14.7%</b>		
Albemarle	62,300	2,411,633
Baldor Electric	59,400	1,635,282
Bemis	91,500	2,661,735
Cabot	66,200	2,560,616
Cooper Industries, Cl. A	34,700	2,355,783
Crane	60,200	1,736,168
Energizer Holdings	63,300 <sup>a</sup>	3,145,377
Harsco	46,200	2,575,188
Hovnanian Enterprises, Cl. A	51,600 <sup>a</sup>	2,555,232
J.B. Hunt Transport Services	93,100	4,175,535
KB HOME	28,400	2,964,960
Lennar, Cl. A	98,500	5,582,980
Lubrizol	82,900	3,055,694
Nucor	39,600	2,072,664
Orbital Sciences	134,100 <sup>a</sup>	1,586,403
Overnite	55,500	2,066,820
Overseas Shipholding Group	55,500	3,063,600
Rockwell Automation	55,100	2,730,205
Ryland Group	60,500	3,481,170
Sherwin-Williams	40,600	1,811,978
Sigma-Aldrich	34,700 <sup>b</sup>	2,097,962
Teledyne Technologies	56,000 <sup>a</sup>	1,648,080
Timken	89,200	2,320,984
W.W. Grainger	38,500	2,564,870
		<b>62,860,919</b>
<b>Services—10.5%</b>		
Acxiom	117,500	3,090,250
Catalina Marketing	65,700	1,946,691
ChoicePoint	68,000 <sup>a</sup>	3,127,320
Cognizant Technology Solutions	64,900 <sup>a</sup>	2,747,217
Cox Radio, Cl. A	88,300 <sup>a</sup>	1,455,184
Equifax	67,100	1,885,510
FactSet Research Systems	60,700	3,547,308
Gemstar-TV Guide International	285,200 <sup>a</sup>	1,688,384
Getty Images	45,400 <sup>a,b</sup>	3,125,790
Hearst-Argyle Television	44,200	1,165,996

<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Services (continued)</b>		
Hewitt Associates, Cl. A	90,700 a,b	2,903,307
ITT Educational Services	51,300 a,b	2,439,315
Manpower	69,400	3,352,020
Media General, Cl. A	38,000	2,462,780
Republic Services	127,800	4,286,412
Washington Post, Cl. B	5,550	5,455,761
		<b>44,679,245</b>
<b>Technology—11.7%</b>		
Activision	164,900 a	3,327,682
Altera	73,300 a	1,517,310
Amphenol, Cl. A	78,200 a	2,873,068
Cabot Microelectronics	66,500 a	2,663,325
CheckFree	61,800 a	2,353,344
Citrix Systems	87,500 a	2,146,375
Cree	54,900 a,b	2,200,392
Digital River	82,800 a	3,445,308
Harris	70,200	4,337,658
Integrated Circuit Systems	106,400 a	2,225,888
Lam Research	135,000 a	3,902,850
McAfee	144,300 a	4,174,599
Microchip Technology	64,900	1,730,234
Plantronics	54,600	2,264,262
SanDisk	70,400 a,b	1,757,888
Storage Technology	111,200 a	3,515,032
Tech Data	63,100 a	2,864,740
Zebra Technologies, Cl. A	48,550 a	2,732,394
		<b>50,032,349</b>
<b>Utilities—3.9%</b>		
Alliant Energy	121,400	3,472,040
CenturyTel	79,900	2,834,053
Great Plains Energy	100,900	3,055,252
SCANA	96,600 b	3,806,040
WPS Resources	67,100	3,352,316
		<b>16,519,701</b>
<b>Total Common Stocks</b>		
(cost \$336,560,941 )		<b>419,787,276</b>

STATEMENT OF INVESTMENTS (continued)

<b>Short-Term Investments—1.7%</b>	Principal Amount (\$)	Value (\$)
<b>Repurchase Agreement;</b>		
Greenwich Capital Markets, Tri-Party Repurchase Agreement, 1.60%, dated 12/31/2004, due 1/3/2005, in the amount of \$7,300,973 (fully collateralized by \$6,555,000 Federal Home Loan Mortgage Corp., Notes, 6.625%, 9/15/2009, value \$7,449,842) (cost \$7,300,000)	7,300,000	<b>7,300,000</b>
<b>Investment of Cash Collateral for Securities Loaned—3.6%</b>		
	Shares	Value (\$)
<b>Registered Investment Company;</b>		
Dreyfus Institutional Cash Advantage Fund (cost \$15,350,329)	15,350,329 <sup>c</sup>	<b>15,350,329</b>
<b>Total Investments</b> (cost \$359,211,270)	<b>103.7%</b>	<b>442,437,605</b>
<b>Liabilities, Less Cash and Receivables</b>	<b>(3.7%)</b>	<b>(15,779,011)</b>
<b>Net Assets</b>	<b>100.0%</b>	<b>426,658,594</b>

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

<sup>b</sup> All or a portion of these securities are on loan. At December 31, 2004, the total market value of the portfolio's securities on loan is \$14,850,880 and the total market value of the collateral held by the portfolio is \$15,350,329.

<sup>c</sup> Investment in affiliated money market mutual fund.

<b>Portfolio Summary<sup>†</sup></b>			
	Value (%)		Value (%)
Interest Sensitive	17.4	Energy	9.6
Consumer Cyclical	17.0	Short-Term/ Money Market Investments	5.3
Producer Goods	14.7	Utilities	3.9
Technology	11.7	Consumer Staples	2.9
Health Care	10.7		
Services	10.5		<b>103.7</b>

<sup>†</sup> Based on net assets.

See notes to financial statements.

## STATEMENT OF ASSETS AND LIABILITIES

December 31, 2004

	Cost	Value
<b>Assets (\$):</b>		
Investments in securities—See Statement of Investments (including securities on loan, valued at \$14,850,880)—Note 1 (b):		
Unaffiliated issuers	343,860,941	427,087,276
Affiliated issuers	15,350,329	15,350,329
Cash		145,976
Dividends and interest receivable		284,804
Receivable for shares of Beneficial Interest subscribed		2,892
Prepaid expenses		10,884
		<b>442,882,161</b>
<b>Liabilities (\$):</b>		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		289,588
Liability for securities on loan—Note 1 (b)		15,350,329
Payable for shares of Beneficial Interest redeemed		530,773
Accrued expenses		52,877
		<b>16,223,567</b>
<b>Net Assets (\$)</b>		<b>426,658,594</b>
<b>Composition of Net Assets (\$):</b>		
Paid-in capital		341,588,089
Accumulated undistributed investment income—net		117,705
Accumulated net realized gain (loss) on investments		1,726,465
Accumulated net unrealized appreciation (depreciation) on investments		83,226,335
<b>Net Assets (\$)</b>		<b>426,658,594</b>
<b>Net Asset Value Per Share</b>		
	Initial Shares	Service Shares
Net Assets (\$)	344,978,821	81,679,773
Shares Outstanding	19,577,399	4,649,351
<b>Net Asset Value Per Share (\$)</b>	<b>17.62</b>	<b>17.57</b>

*See notes to financial statements.*

## STATEMENT OF OPERATIONS

Year Ended December 31, 2004

<b>Investment Income (\$):</b>	
<b>Income:</b>	
Cash dividends (net of \$3,988 foreign taxes withheld at source)	4,479,671
Interest	116,795
Income from securities lending	26,077
<b>Total Income</b>	<b>4,622,543</b>
<b>Expenses:</b>	
Investment advisory fee—Note 3(a)	2,859,526
Distribution fees—Note 3(b)	173,623
Professional fees	44,310
Custodian fees—Note 3(b)	39,048
Prospectus and shareholders' reports	21,471
Trustees' fees and expenses—Note 3(c)	16,054
Shareholder servicing costs—Note 3(b)	7,876
Registration fees	143
Miscellaneous	1,503
<b>Total Expenses</b>	<b>3,163,554</b>
Less—waiver of fees due to undertaking—Note 3(a)	(23,446)
Less—reduction in custody fees due to earnings credits—Note 1(b)	(877)
<b>Net Expenses</b>	<b>3,139,231</b>
<b>Investment Income—Net</b>	<b>1,483,312</b>
<b>Realized and Unrealized Gain (Loss) on Investments—Note 4 (\$):</b>	
Net realized gain (loss) on investments	35,312,341
Net unrealized appreciation (depreciation) on investments	16,976,570
<b>Net Realized and Unrealized Gain (Loss) on Investments</b>	<b>52,288,911</b>
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>53,772,223</b>

*See notes to financial statements.*

## STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2004	2003
<b>Operations (\$):</b>		
Investment income—net	1,483,312	810,913
Net realized gain (loss) on investments	35,312,341	9,408,572
Net unrealized appreciation (depreciation) on investments	16,976,570	68,768,258
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>53,772,223</b>	<b>78,987,743</b>
<b>Dividends to Shareholders from (\$):</b>		
Investment income—net:		
Initial shares	(1,247,333)	(728,922)
Service shares	(140,525)	(81,129)
Net realized gain on investments:		
Initial shares	(8,014,833)	—
Service shares	(1,899,359)	—
<b>Total Dividends</b>	<b>(11,302,050)</b>	<b>(810,051)</b>
<b>Beneficial Interest Transactions (\$):</b>		
Net proceeds from shares sold:		
Initial shares	38,662,714	47,304,668
Service shares	26,036,803	32,894,299
Dividends reinvested:		
Initial shares	9,262,166	728,922
Service shares	2,039,884	81,129
Cost of shares redeemed:		
Initial shares	(39,708,550)	(32,010,864)
Service shares	(12,581,127)	(3,406,244)
<b>Increase (Decrease) in Net Assets from Beneficial Interest Transactions</b>	<b>23,711,890</b>	<b>45,591,910</b>
<b>Total Increase (Decrease) in Net Assets</b>	<b>66,182,063</b>	<b>123,769,602</b>
<b>Net Assets (\$):</b>		
Beginning of Period	360,476,531	236,706,929
<b>End of Period</b>	<b>426,658,594</b>	<b>360,476,531</b>
Undistributed investment income—net	117,705	22,144

STATEMENT OF CHANGES IN NET ASSETS (continued)

	Year Ended December 31,	
	2004	2003
<b>Capital Share Transactions:</b>		
<b>Initial Shares</b>		
Shares sold	2,387,774	3,369,757
Shares issued for dividends reinvested	531,785	47,166
Shares redeemed	(2,450,805)	(2,451,003)
<b>Net Increase (Decrease) in Shares Outstanding</b>	<b>468,754</b>	<b>965,920</b>
<b>Service Shares</b>		
Shares sold	1,619,530	2,410,994
Shares issued for dividends reinvested	117,505	5,260
Shares redeemed	(778,615)	(250,075)
<b>Net Increase (Decrease) in Shares Outstanding</b>	<b>958,420</b>	<b>2,166,179</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,				
	2004	2003	2002	2001	2000
<b>Per Share Data (\$):</b>					
Net asset value, beginning of period	15.82	12.04	13.80	14.29	13.44
Investment Operations:					
Investment income-net <sup>a</sup>	.07	.04	.04	.03	.05
Net realized and unrealized gain (loss) on investments	2.22	3.78	(1.76)	(.50)	1.05
Total from Investment Operations	2.29	3.82	(1.72)	(.47)	1.10
Distributions:					
Dividends from investment income-net	(.07)	(.04)	(.04)	(.02)	(.03)
Dividends from net realized gain on investments	(.42)	-	-	-	(.13)
Dividends in excess of net realized gain on investments	-	-	-	-	(.09)
Total Distributions	(.49)	(.04)	(.04)	(.02)	(.25)
Net asset value, end of period	17.62	15.82	12.04	13.80	14.29
<b>Total Return (%)</b>	14.48	31.72	(12.49)	(3.26)	8.28
<b>Ratios/Supplemental Data (%):</b>					
Ratio of total expenses to average net assets	.78	.82	.85	.89	1.04
Ratio of net expenses to average net assets	.78	.82	.85	.89	.98
Ratio of net investment income to average net assets	.43	.32	.32	.24	.34
Portfolio Turnover Rate	79.75	74.15	69.15	76.37	102.89
Net Assets, end of period (\$ x 1,000)	344,979	302,253	218,387	181,028	76,784

<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,				
	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Per Share Data (\$):</b>					
Net asset value, beginning of period	15.77	12.02	13.78	14.29	14.29
Investment Operations:					
Investment income-net	.04 <sup>b</sup>	.02 <sup>b</sup>	.02 <sup>b</sup>	.01 <sup>b</sup>	-
Net realized and unrealized gain (loss) on investments	2.21	3.75	(1.75)	(.50)	-
Total from Investment Operations	2.25	3.77	(1.73)	(.49)	-
Distributions:					
Dividends from investment income-net	(.03)	(.02)	(.03)	(.02)	-
Dividends from net realized gain on investments	(.42)	-	-	-	-
Total Distributions	(.45)	(.02)	(.03)	(.02)	-
Net asset value, end of period	17.57	15.77	12.02	13.78	14.29
<b>Total Return (%)</b>	14.23	31.48	(12.64)	(3.36)	-
<b>Ratios/Supplemental Data (%):</b>					
Ratio of total expenses to average net assets	1.03	1.06	1.10	1.17	-
Ratio of net expenses to average net assets	1.00	1.00	1.00	1.00	-
Ratio of net investment income to average net assets	.22	.12	.15	.07	-
Portfolio Turnover Rate	79.75	74.15	69.15	76.37	102.89
Net Assets, end of period (\$ x 1,000)	81,680	58,224	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 nine 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” or “Dreyfus”) serves as the portfolio’s investment adviser. The Manager is a wholly-owned subsidiary of Mellon Financial Corporation (“Mellon Financial”).

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. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The 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 U.S. generally accepted accounting principles, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The fund enters into contracts that contain a variety of indemnifications. The portfolio's maximum exposure under these arrangements is unknown. The portfolio does not anticipate recognizing any loss related to these arrangements.

**(a) Portfolio valuation:** Investments in securities are valued at the last sales price on the securities exchange or national securities market on which such securities are primarily traded. Securities listed on the National Market System for which market quotations are available are valued at the official closing price or, if there is no official closing price that day, at the last sales price. Securities not listed on an exchange or the national securities market, or securities for which there were no transactions, are valued at the average of the most recent bid and asked prices, except for open short positions, where the asked price is used for valuation purposes. Bid price is used when no asked price is available. Investments in registered investment companies are valued at their net asset value. When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the portfolio calculates its net asset value, the portfolio may value these investments at fair value as determined in accordance with the procedures approved by the Board of Trustees. Fair valuing of securities may be determined with the assistance of a pricing service using calculations based on indices of domestic securities and other appropriate indicators, such as prices of relevant ADR's and futures contracts. For other securities that are fair valued by the Board of Trustees, certain factors may be considered such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold and public trading in similar securities of the issuer or comparable issuers.

**(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, accretion of discount and amortization of premium on investments, is recognized on the accrual basis.

The portfolio has an arrangement with the custodian bank whereby the portfolio receives earnings credits from the custodian when positive cash balances are maintained, which are used to offset custody fees. For financial reporting purposes, the portfolio includes net earnings credits as an expense offset in the Statement of Operations.

Pursuant to a securities lending agreement with Mellon Bank, N.A., an affiliate of the Manager, the portfolio may lend securities to qualified institutions. At origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan will be maintained at all times. Cash collateral is invested in certain money market mutual funds managed by the Manager. 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) **Affiliated issuers:** Investments in other investment companies advised by the Manager are defined as “affiliated” in the Act.

(d) **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, if any, it is the policy of the portfolio not to distribute such gain. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles.

(e) **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, 2004, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income \$113,565, undistributed capital gains \$1,741,228 and unrealized appreciation \$83,215,712.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2004 and December 31, 2003 were as follows: ordinary income \$1,387,858 and \$810,051 and long-term capital gains \$9,914,192 and \$0, respectively.

During the period ended December 31, 2004, as a result of permanent book to tax differences primarily due to the tax treatment for real estate investment trusts, the portfolio increased accumulated undistributed investment income-net by \$107, increased accumulated net realized gain (loss) on investments by \$129 and decreased paid-in capital by \$236. 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, 2004, 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, 2004 to December 31, 2005, 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, 2004, the Manager waived receipt of fees of \$23,446, 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, 2004, Service shares were charged \$173,623 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, 2004, the portfolio was charged \$724 pursuant to the transfer agency agreement.

The portfolio compensates Mellon Bank, N.A., an affiliate of the Manager, under a custody agreement for providing custodial services for the portfolio. During the period ended December 31, 2004, the portfolio was charged \$39,048 pursuant to the custody agreement.

The components of Due to The Dreyfus Corporation and affiliates in the Statement of Assets and Liabilities consist of: investment advisory fees \$266,724, Rule 12b-1 distribution plan fees \$16,969, custodian fees \$7,200 and transfer agency per account fees \$129, which are offset against an expense reimbursement currently in effect in the amount of \$1,434.

(c) Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

**NOTE 4—Securities Transactions:**

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended December 31, 2004, amounted to \$313,506,933 and \$298,060,666, respectively.

At December 31, 2004, the cost of investments for federal income tax purposes was \$359,221,893; accordingly, accumulated net unrealized appreciation on investments was \$83,215,712, consisting of \$86,980,537 gross unrealized appreciation and \$3,764,825 gross unrealized depreciation.

**NOTE 5—Legal Matters:**

In early 2004, two purported class and derivative actions were filed against Mellon Financial, Mellon Bank, N.A., Dreyfus, Founders Asset Management LLC, and certain directors of the Dreyfus Funds and the Dreyfus Founders Funds (together, the “Funds”). In September 2004,

plaintiffs served a Consolidated Amended Complaint (the “Amended Complaint”) on behalf of a purported class of all persons who acquired interests in any of the Funds between January 30, 1999 and November 17, 2003, and derivatively on behalf of the Funds. The Amended Complaint in the newly styled In re Dreyfus Mutual Funds Fee Litigation also named the Distributor, Premier Mutual Fund Services, Inc. and two additional Fund directors as defendants and alleges violations of the Investment Company Act of 1940, the Investment Advisers Act of 1940, the Pennsylvania Unfair Trade Practices and Consumer Protection Law and common-law claims. Plaintiffs seek to recover allegedly improper and excessive Rule 12b-1 and advisory fees allegedly charged to the Funds for marketing and distribution services. More specifically, plaintiffs claim, among other things, that 12b-1 fees and directed brokerage were improperly used to pay brokers to recommend the Funds over other funds, and that such payments were not disclosed to investors. In addition, plaintiffs assert that economies of scale and soft-dollar benefits were not passed on to the Funds. Plaintiffs further allege that 12b-1 fees were improperly charged to certain of the Funds that were closed to new investors. The Amended Complaint seeks compensatory and punitive damages, rescission of the advisory contracts, and an accounting and restitution of any unlawful fees, as well as an award of attorneys’ fees and litigation expenses. As noted, some of the claims in this litigation are asserted derivatively on behalf of the Funds that have been named as nominal defendants. With respect to such derivative claims, no relief is sought against the Funds. Dreyfus believes the allegations to be totally without merit and intends to defend the action vigorously. Defendants filed motions to dismiss the Amended Complaint on November 12, 2004, and those motions are pending.

Additional lawsuits arising out of these circumstances and presenting similar allegations and requests for relief may be filed against the defendants in the future. Neither Dreyfus nor the Funds believe that any of the pending actions will have a material adverse effect on the Funds or Dreyfus’ ability to perform its contract with the Funds.



REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

**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, 2004, 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 the standards of the Public Company Accounting Oversight Board (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, 2004 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, 2004, 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 U. S. generally accepted accounting principles.

*Ernst & Young LLP*

New York, New York  
February 4, 2005

## IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the portfolio hereby designates \$.4190 per share as a long-term capital gain distribution paid on December 21, 2004 and also hereby designates 100% of the ordinary dividends paid during the fiscal year ended December 31, 2004 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in January 2005 of the percentage applicable to the preparation of their 2004 income tax returns.

## BOARD MEMBERS INFORMATION (Unaudited)

### **Joseph S. DiMartino (61)** **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
- Azimuth Trust, an institutional asset management firm, Member of Board of Managers and Advisory Board

*No. of Portfolios for which Board Member Serves:* 186

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### **Clifford L. Alexander, Jr. (71)** **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–October 2003)
- Chairman of the Board and Chief Executive Officer of The Dun and Bradstreet Corporation (October 1999–September 2000)

*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:* 65

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### **Lucy Wilson Benson (77)** **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 Chairperson
- Council on Foreign Relations, Member
- Lafayette College Board of Trustees, Vice Chairperson
- Atlantic Council of the U.S., Director

*No. of Portfolios for which Board Member Serves:* 39

**David W. Burke (68)**  
**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:* 83

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**Whitney I. Gerard (70)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- Partner of Chadbourne & Parke LLP

*No. of Portfolios for which Board Member Serves:* 37

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**Arthur A. Hartman (78)**  
**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:*

- APCO Associates, Inc., Senior Consultant

*No. of Portfolios for which Board Member Serves:* 37

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**George L. Perry (70)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- Economist and Senior Fellow at Brookings Institution

*No. of Portfolios for which Board Member Serves:* 37

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*Once elected all Board Members serve for an indefinite term. The address of the Board Members and Officers is in c/o The Dreyfus Corporation, 200 Park Avenue, New York, New York 10166. Additional information about the Board Members 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 92 investment companies (comprised of 185 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 59 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 92 investment companies (comprised of 185 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 51 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 93 investment companies (comprised of 201 portfolios) managed by the Manager. He is 58 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 93 investment companies (comprised of 201 portfolios) managed by the Manager. He is 55 years old and has been an employee of the Manager since July 1980.

**ROBERT R. MULLERY, Assistant Secretary since January 2003.**

Associate General Counsel of the Manager, and an officer of 26 investment companies (comprised of 60 portfolios) managed by the Manager. He is 52 years old and has been an employee of the Manager since May 1986.

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

Associate General Counsel of the Manager, and an officer of 26 investment companies (comprised of 88 portfolios) managed by the Manager. He is 39 years old and has been an employee of the Manager since October 1990.

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

Associate General Counsel of the Manager, and an officer of 90 investment companies (comprised of 194 portfolios) managed by the Manager. He is 44 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 93 investment companies (comprised of 201 portfolios) managed by the Manager. He is 46 years old and has been an employee of the Manager since April 1985.

**RICHARD CASSARO, Assistant Treasurer since August 2003.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 26 investment companies (comprised of 102 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since September 1982.

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

Senior Accounting Manager – Taxable Fixed Income Funds of the Manager, and an officer of 19 investment companies (comprised of 75 portfolios) managed by the Manager. He is 36 years old and has been an employee of the Manager since November 1992.

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

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 27 investment companies (comprised of 107 portfolios) managed by the Manager. He is 37 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 93 investment companies (comprised of 201 portfolios) managed by the Manager. He is 50 years old and has been an employee of the Manager since June 1993.

**JOSEPH W. CONNOLLY, Chief Compliance Officer since October 2004.**

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (93 investment companies, comprising 201 portfolios). From November 2001 through March 2004, Mr. Connolly was first Vice-President, Mutual Fund Servicing for Mellon Global Securities Services. In that capacity, Mr. Connolly was responsible for managing Mellon's Custody, Fund Accounting and Fund Administration services to third-party mutual fund clients. He is 47 years old and has served in various capacities with the Manager since 1980, including manager of the firm's Fund Accounting Department from 1997 through October 2001.

**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 88 investment companies (comprised of 196 portfolios) managed by the Manager. He is 34 years old and has been an employee of the Distributor since October 1998.

# For More Information

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**Dreyfus  
Investment Portfolios,  
MidCap Stock Portfolio**  
200 Park Avenue  
New York, NY 10166

**Investment Adviser**  
The Dreyfus Corporation  
200 Park Avenue  
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**Custodian**  
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**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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**Telephone** 1-800-554-4611 or 516-338-3300

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

The portfolio files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The portfolio's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the policies and procedures that the portfolio uses to determine how to vote proxies relating to portfolio securities, and information regarding how the portfolio voted these proxies for the 12-month period ended June 30, 2004, is available through the portfolio's website at <http://www.dreyfus.com> and on the SEC's website at <http://www.sec.gov>. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-645-6561.



# The Dreyfus Socially Responsible Growth Fund, Inc.

**ANNUAL REPORT** December 31, 2004



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** Understanding Your Fund's Expenses
- 8** Comparing Your Fund's Expenses  
With Those of Other Funds
- 9** Statement of Investments
- 12** Statement of Assets and Liabilities
- 13** Statement of Operations
- 14** Statement of Changes in Net Assets
- 16** Financial Highlights
- 18** Notes to Financial Statements
- 25** Report of Independent Registered  
Public Accounting Firm
- 26** Important Tax Information
- 27** Board Members Information
- 29** Officers of the Fund

## FOR MORE INFORMATION

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Back Cover



## LETTER FROM THE CHAIRMAN

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Dear Shareholder:

We are pleased to present this annual report for The Dreyfus Socially Responsible Growth Fund, Inc., covering the 12-month period from January 1, 2004, through December 31, 2004. 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.

2004 represented the second consecutive year of positive stock market performance. Unlike the 2003 rally, however, in which most stocks rose as general business conditions improved, 2004's market performance largely reflected the strengths and weaknesses of individual companies and industries. As a result, fundamental research and professional judgment became more important determinants of mutual fund performance in 2004.

What's ahead for stocks in 2005? No one knows for certain. Positive influences remain in place, including moderately expanding U.S. and global economies and low inflation. Nonetheless, a number of risks — such as rising short-term interest rates, currency fluctuations and generally slowing corporate earnings — could threaten the market environment.

As always, we urge our shareholders to view the stock market from a long-term perspective, measured in years rather than weeks or months. One of the best ways to ensure a long-term perspective is to establish an investment plan with the help of your financial advisor, and review it periodically to track your progress toward your financial goals.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter  
Chairman and Chief Executive Officer  
The Dreyfus Corporation  
January 18, 2005



## 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, 2004, the fund's Initial shares produced a 6.21% total return, and the fund's Service shares provided a 5.94% total return.<sup>1</sup> In comparison, the fund's benchmark, the Standard & Poor's 500 Composite Stock Price Index ("S&P 500 Index"), produced an 11.04% total return for the same period.<sup>2</sup>

We attribute the market's overall strength to continuing U.S. economic growth. However, geopolitical and economic uncertainties constrained the market's forward progress and led to a generally risk-averse investment environment that favored traditionally defensive, value-oriented investment sectors. The fund's growth-oriented investment strategy led us to allocate relatively few assets to such sectors. As a result, the fund underperformed relative to the benchmark during 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 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?**

Traditionally defensive investment sectors, such as energy and industrials, generated the market's most significant gains during the reporting period. Although the fund had relatively light exposure to these sectors, in line with its growth-oriented investment strategy, it shared in the market's advance to a degree. In the energy sector, which rose sharply on the strength of robust industrial demand and higher oil and

gas prices, the fund held positions in select independent producers, such as Anadarko Petroleum. Among industrials, holdings of conglomerates, such as Tyco International, boosted returns.

Strong individual stock selections enabled the fund to outperform the benchmark in the consumer discretionary, consumer staples and health care sectors. Top consumer discretionary performers included makers of luxury apparel and accessories, such as Coach; hotel and leisure companies, such as Marriott International; and multi-line retailers, such as Target. Among consumer staples holdings, PepsiCo proved a strong performer, profiting from its earlier acquisition of the health-conscious Quaker Foods brand, which was not owned by the fund. Finally, in the health care sector, the fund's performance benefited from its emphasis on makers of equipment and supplies, such as Fisher Scientific International and Kinetic Concepts and service providers, such as WellPoint.

On the other hand, the fund's performance was undermined by its relatively heavy exposure to technology stocks, which represented the worst performing sector of the S&P 500 Index for the reporting period. A few technology holdings, such as service providers Alliance Data Systems and Cognizant Technology Solutions, gained significant ground. However, several others suffered losses, most notably semiconductor holdings, such as Applied Materials and Fairchild Semiconductor, and telecommunications product and service provider UTStarcom. Our trading strategy in several other technology stocks, including Analog Devices, Agilent Technologies and Texas Instruments, further undercut returns. The fund's performance compared to the benchmark also proved weak in the financial sector, primarily due to the fund's light exposure to interest-rate-sensitive banking stocks, a group that benefited from surprisingly low interest rates.

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

As of the end of the reporting period, we continue to emphasize growth-oriented technology stocks that we believe are well-positioned to benefit from attractive valuations and cyclical economic developments. We also continue to find a relatively large number of what we believe are attractive investment opportunities among health care device and equipment makers, service providers and, increasingly, in biotech-

nology, which we currently prefer over major pharmaceutical companies. We have maintained the fund's relatively light exposure to financial stocks that we believe may be vulnerable to rising interest rates.

### **Can you highlight some of the fund's socially responsible investing activities?**

The fund's socially responsible investing (SRI) criteria primarily focus on issues regarding environmental practices, occupational and product safety, and equal employment opportunity. We use these criteria not only to screen potential investments, but to monitor the fund's holdings and ensure that each continues to meet our SRI standards.

For example, during the reporting period, regulatory and public scrutiny of pharmaceutical companies intensified. In this context, we reviewed the fund's holding of Pfizer, Inc. and determined that it no longer met our SRI standards, which led us to sell the fund's entire position in the stock. Consistent with our practice, in many cases, of engaging in dialogue with a company's management to encourage improvements in its socially responsible activities, we had discussions with a representative of Pfizer about our SRI review of the company and the reasons for our decision to sell the fund's position in the stock.

For further information regarding the fund's approach to socially responsible investing, search for "SRI" on the Dreyfus website ([www.dreyfus.com](http://www.dreyfus.com)) or consult the fund's prospectus.

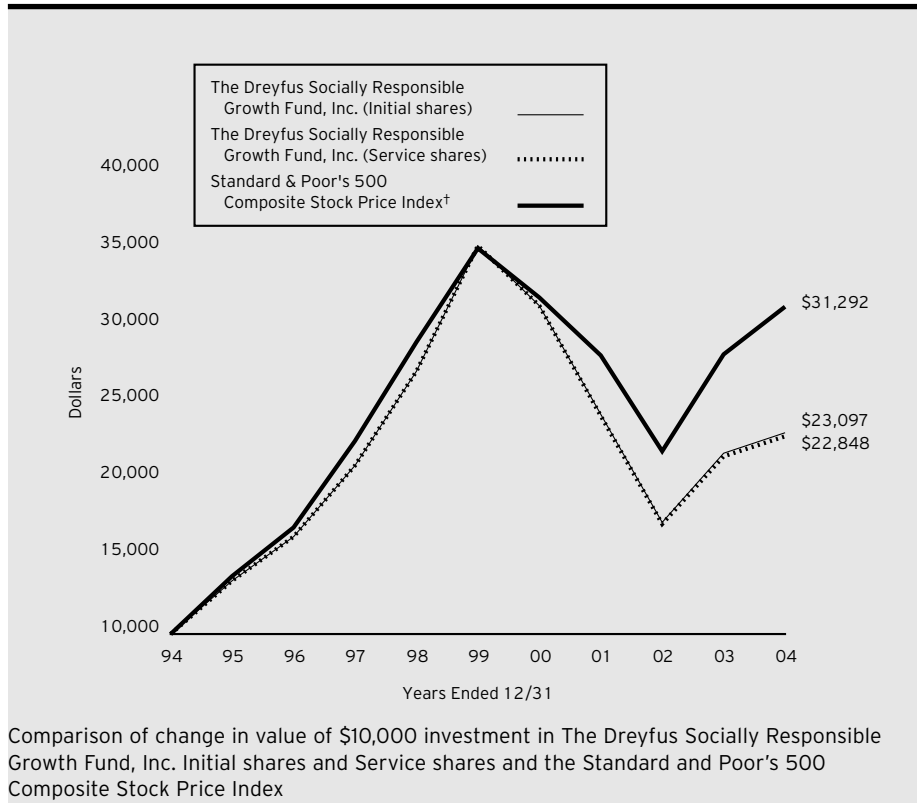
January 18, 2005

*The fund is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies. Individuals may not purchase shares of the fund directly. A variable annuity is an insurance contract issued by an insurance company that enables investors to accumulate assets on a tax-deferred basis for retirement or other long-term goals. The investment objective and policies of The Dreyfus Socially Responsible Growth Fund, Inc. made available through insurance products may be similar to other funds/portfolios managed or advised by Dreyfus. However, the investment results of the fund may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund/portfolio.*

<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



### Average Annual Total Returns as of 12/31/04

	1 Year	5 Years	10 Years
<b>Initial shares</b>	<b>6.21%</b>	<b>(8.11)%</b>	<b>8.73%</b>
<b>Service shares</b>	<b>5.94%</b>	<b>(8.31)%</b>	<b>8.61%</b>

The data for Service shares includes the results of Initial shares for the period prior to December 31, 2000 (inception date of Service 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 above graph compares a \$10,000 investment made in Initial and Service shares of The Dreyfus Socially Responsible Growth Fund, Inc. on 12/31/94 to a \$10,000 investment made in the Standard & Poor's 500 Composite Stock Price Index (the "Index") on that date.

*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, 2004 (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.*



## UNDERSTANDING YOUR FUND'S EXPENSES (Unaudited)

*As a mutual fund investor, you pay ongoing expenses, such as management fees and other expenses. Using the information below, you can estimate how these expenses affect your investment and compare them with the expenses of other funds. You also may pay one-time transaction expenses, including sales charges (loads) and redemption fees, which are not shown in this section and would have resulted in higher total expenses. For more information, see your fund's prospectus or talk to your financial adviser.*

### Review your fund's expenses

The table below shows the expenses you would have paid on a \$1,000 investment in The Dreyfus Socially Responsible Growth Fund, Inc. from July 1, 2004 to December 31, 2004. It also shows how much a \$1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

<b>Expenses and Value of a \$1,000 Investment</b>		
assuming actual returns for the six months ended December 31, 2004		
	<b>Initial Shares</b>	<b>Service Shares</b>
Expenses paid per \$1,000 <sup>†</sup>	\$ 4.14	\$ 5.42
Ending value (after expenses)	\$1,033.80	\$1,032.40

## COMPARING YOUR FUND'S EXPENSES WITH THOSE OF OTHER FUNDS (Unaudited)

### Using the SEC's method to compare expenses

The Securities and Exchange Commission (SEC) has established guidelines to help investors assess fund expenses. Per these guidelines, the table below shows your fund's expenses based on a \$1,000 investment, assuming a hypothetical 5% annualized return. You can use this information to compare the ongoing expenses (but not transaction expenses or total cost) of investing in the fund with those of other funds. All mutual fund shareholder reports will provide this information to help you make this comparison. Please note that you cannot use this information to estimate your actual ending account balance and expenses paid during the period.

<b>Expenses and Value of a \$1,000 Investment</b>		
assuming a hypothetical 5% annualized return for the six months ended December 31, 2004		
	<b>Initial Shares</b>	<b>Service Shares</b>
Expenses paid per \$1,000 <sup>†</sup>	\$ 4.12	\$ 5.38
Ending value (after expenses)	\$1,021.06	\$1,019.81

<sup>†</sup> Expenses are equal to the fund's annualized expense ratio of .81% for Initial shares and 1.06% for Service shares; multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).

## STATEMENT OF INVESTMENTS

December 31, 2004

<b>Common Stocks—98.7%</b>	Shares	Value (\$)
<b>Consumer Discretionary—15.4%</b>		
Coach	162,500 <sup>a</sup>	9,165,000
Dollar General	443,500	9,211,495
Marriott International, Cl. A	238,500	15,020,730
Staples	355,000	11,967,050
Target	256,000	13,294,080
Tiffany & Co	99,000	3,165,030
Viacom, Cl. B	180,000	6,550,200
Walt Disney	317,000	8,812,600
		<b>77,186,185</b>
<b>Computer Software—6.2%</b>		
Microsoft	751,000	20,059,210
Symantec	423,000 <sup>a</sup>	10,896,480
		<b>30,955,690</b>
<b>Consumer Staples—7.5%</b>		
Estee Lauder Cos., Cl. A	221,500	10,138,055
PepsiCo	173,000	9,030,600
Procter & Gamble	125,500	6,912,540
Walgreen	304,000	11,664,480
		<b>37,745,675</b>
<b>Energy—1.9%</b>		
Anadarko Petroleum	147,000	<b>9,527,070</b>
<b>Financials—9.1%</b>		
American Express	151,000	8,511,870
American International Group	155,300	10,198,551
Citigroup	200,000	9,636,000
Goldman Sachs Group	83,500	8,687,340
Radian Group	167,500	8,917,700
		<b>45,951,461</b>
<b>Health Care—17.3%</b>		
Alcon	116,500	9,389,900
Amgen	112,000 <sup>a</sup>	7,184,800
Fisher Scientific International	163,500 <sup>a</sup>	10,199,130
Genzyme	219,000 <sup>a</sup>	12,717,330
Kinetic Concepts	122,000 <sup>a</sup>	9,308,600
Medtronic	104,000	5,165,680
Stryker	176,500	8,516,125

## STATEMENT OF INVESTMENTS (continued)

<b>Common Stocks (continued)</b>	Shares	Value (\$)
<b>Health Care (continued)</b>		
Waters	180,000 <sup>a</sup>	8,422,200
WellPoint	70,000 <sup>a</sup>	8,050,000
Zimmer Holdings	97,000 <sup>a</sup>	7,771,640
		<b>86,725,405</b>
<b>Industrials-8.7%</b>		
Danaher	240,500	13,807,105
3M	83,000	6,811,810
Tyco International	417,000	14,903,580
United Parcel Service, Cl. B	94,000	8,033,240
		<b>43,555,735</b>
<b>Information Technology-23.7%</b>		
Accenture, Cl. A	177,000 <sup>a</sup>	4,779,000
Alliance Data Systems	189,000 <sup>a</sup>	8,973,720
Altera	394,500 <sup>a</sup>	8,166,150
Cisco Systems	712,000 <sup>a</sup>	13,741,600
Cognizant Technology Solutions, Cl. A	173,500 <sup>a</sup>	7,344,255
Corning	551,500 <sup>a</sup>	6,491,155
Dell	441,500 <sup>a</sup>	18,604,810
EMC	378,000 <sup>a</sup>	5,620,860
Intel	572,000	13,379,080
International Business Machines	151,000	14,885,580
Motorola	572,000	9,838,400
QUALCOMM	140,000	5,936,000
Texas Instruments	61,000	1,501,820
		<b>119,262,430</b>
<b>Materials-1.0%</b>		
Air Products & Chemicals	83,500	<b>4,840,495</b>
<b>Pharmaceuticals-7.9%</b>		
Johnson & Johnson	382,500	24,258,150
Eli Lilly & Co	134,500	7,632,875
Novartis, ADR	158,500	8,010,590
		<b>39,901,615</b>
<b>Total Common Stocks</b> (cost \$406,200,568)		<b>495,651,761</b>

	Principal Amount (\$)	Value (\$)
<b>Short-Term Investments—1.4%</b>		
<b>Certificates of Deposit—0%</b>		
Self Help Credit Union, 2.46%, 3/15/2005	100,000	<b>100,000</b>
<b>U.S. Treasury Bills—1.4%</b>		
1.83%, 2/10/2005	7,207,000	<b>7,192,370</b>
<b>Total Short-Term Investments</b> (cost \$7,292,346)		<b>7,292,370</b>
<b>Total Investments</b> (cost \$413,492,914)	<b>100.1%</b>	<b>502,944,131</b>
<b>Liabilities, Less Cash and Receivables</b>	<b>(.1%)</b>	<b>(457,787)</b>
<b>Net Assets</b>	<b>100.0%</b>	<b>502,486,344</b>

ADR—American Depository Receipts.

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

Portfolio Summary †			
	Value (%)		Value (%)
Information Technology	23.7	Consumer Staples	7.5
Health Care	17.3	Computer Software	6.2
Consumer Discretionary	15.4	Energy	1.9
Financials	9.1	Short-Term Investments	1.4
Industrials	8.7	Materials	1.0
Pharmaceuticals	7.9		<b>100.1</b>

† Based on net assets.

See notes to financial statements.

## STATEMENT OF ASSETS AND LIABILITIES

December 31, 2004

	Cost	Value
<b>Assets (\$):</b>		
Investments in securities—See Statement of Investments	413,492,914	502,944,131
Cash		212,266
Receivable for investment securities sold		10,325,728
Dividends and interest receivable		291,413
Receivable for shares of Common Stock subscribed		52,041
Prepaid expenses		23,226
		<b>513,848,805</b>
<b>Liabilities (\$):</b>		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		327,181
Payable for investment securities purchased		10,855,352
Payable for shares of Common Stock redeemed		103,465
Accrued expenses		76,463
		<b>11,362,461</b>
<b>Net Assets (\$)</b>		<b>502,486,344</b>
<b>Composition of Net Assets (\$):</b>		
Paid-in capital		696,821,193
Accumulated net realized gain (loss) on investments		(283,786,066)
Accumulated net unrealized appreciation (depreciation) on investments		89,451,217
<b>Net Assets (\$)</b>		<b>502,486,344</b>

### Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets (\$)	488,994,258	13,492,086
Shares Outstanding	19,427,281	538,389
<b>Net Asset Value Per Share (\$)</b>	<b>25.17</b>	<b>25.06</b>

*See notes to financial statements.*

## STATEMENT OF OPERATIONS

Year Ended December 31, 2004

<b>Investment Income (\$):</b>	
<b>Income:</b>	
Cash dividends (net of \$7,642 foreign taxes withheld at source)	5,887,673
Interest	132,766
Income from securities lending	3,445
<b>Total Income</b>	<b>6,023,884</b>
<b>Expenses:</b>	
Investment advisory fee—Note 3(a)	3,788,510
Prospectus and shareholders' reports	121,069
Professional fees	77,019
Shareholder servicing costs—Note 3(c)	56,121
Custodian fees—Note 3(c)	40,862
Distribution fees—Note 3(b)	31,797
Directors' fees and expenses—Note 3(d)	19,644
Loan commitment fees—Note 2	3,990
Registration fees	380
Miscellaneous	10,524
<b>Total Expenses</b>	<b>4,149,916</b>
Less—reduction in custody fees due to earnings credits—Note 1 (b)	(677)
<b>Net Expenses</b>	<b>4,149,239</b>
<b>Investment Income—Net</b>	<b>1,874,645</b>
<b>Realized and Unrealized Gain (Loss) on Investments—Note 4 (\$):</b>	
Net realized gain (loss) on investments	19,989,769
Net unrealized appreciation (depreciation) on investments	7,654,122
<b>Net Realized and Unrealized Gain (Loss) on Investments</b>	<b>27,643,891</b>
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>29,518,536</b>

*See notes to financial statements.*

## STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2004	2003
<b>Operations (\$):</b>		
Investment income-net	1,874,645	534,246
Net realized gain (loss) on investments	19,989,769	572,765
Net unrealized appreciation (depreciation) on investments	7,654,122	110,456,965
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>29,518,536</b>	<b>111,563,976</b>
<b>Dividends to Shareholders from (\$):</b>		
Investment income-net:		
Initial shares	(1,891,537)	(531,273)
Service shares	(19,888)	(523)
<b>Total Dividends</b>	<b>(1,911,425)</b>	<b>(531,796)</b>
<b>Capital Stock Transactions (\$):</b>		
Net proceeds from shares sold:		
Initial shares	30,639,929	54,435,818
Service shares	2,361,742	3,981,349
Dividends reinvested:		
Initial shares	1,891,537	531,273
Service shares	19,888	523
Cost of shares redeemed:		
Initial shares	(91,661,913)	(98,462,078)
Service shares	(1,835,549)	(2,184,906)
<b>Increase (Decrease) in Net Assets from Capital Stock Transactions</b>	<b>(58,584,366)</b>	<b>(41,698,021)</b>
<b>Total Increase (Decrease) in Net Assets</b>	<b>(30,977,255)</b>	<b>69,334,159</b>
<b>Net Assets (\$):</b>		
Beginning of Period	533,463,599	464,129,440
<b>End of Period</b>	<b>502,486,344</b>	<b>533,463,599</b>
Undistributed investment income-net	-	29,471

	Year Ended December 31,	
	2004	2003
<b>Capital Share Transactions:</b>		
<b>Initial Shares</b>		
Shares sold	1,268,633	2,612,164
Shares issued for dividends reinvested	75,115	22,640
Shares redeemed	(3,826,643)	(4,858,079)
<b>Net Increase (Decrease) in Shares Outstanding</b>	<b>(2,482,895)</b>	<b>(2,223,275)</b>
<b>Service Shares</b>		
Shares sold	99,344	190,969
Shares issued for dividends reinvested	793	27
Shares redeemed	(76,854)	(106,555)
<b>Net Increase (Decrease) in Shares Outstanding</b>	<b>23,283</b>	<b>84,441</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,				
	2004	2003	2002	2001	2000
<b>Per Share Data (\$):</b>					
Net asset value, beginning of period	23.79	18.90	26.67	34.47	39.07
Investment Operations:					
Investment income—net <sup>a</sup>	.09	.02	.05	.02	.32
Net realized and unrealized gain (loss) on investments	1.39	4.89	(7.77)	(7.80)	(4.63)
Total from Investment Operations	1.48	4.91	(7.72)	(7.78)	(4.31)
Distributions:					
Dividends from investment income—net	(.10)	(.02)	(.05)	(.02)	(.29)
Net asset value, end of period	25.17	23.79	18.90	26.67	34.47
<b>Total Return (%)</b>	6.21	26.00	(28.94)	(22.57)	(11.03)
<b>Ratios/Supplemental Data (%):</b>					
Ratio of total expenses to average net assets	.82	.84	.80	.78	.78
Ratio of net expenses to average net assets	.82	.84	.80	.78	.78
Ratio of net investment income to average net assets	.38	.12	.20	.06	.82
Portfolio Turnover Rate	55.54	63.17	90.07	110.82	63.60
Net Assets, end of period (\$ x 1,000)	488,994	521,262	456,014	779,063	1,075,089

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

<b>Service Shares</b>	Year Ended December 31,				
	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Per Share Data (\$):</b>					
Net asset value, beginning of period	23.69	18.84	26.59	34.47	34.47
Investment Operations:					
Investment income (loss)–net	.04 <sup>b</sup>	(.03) <sup>b</sup>	(.00) <sup>b,c</sup>	(.06) <sup>b</sup>	–
Net realized and unrealized gain (loss) on investments	1.37	4.88	(7.75)	(7.82)	–
Total from Investment Operations	1.41	4.85	(7.75)	(7.88)	–
Distributions:					
Dividends from investment income–net	(.04)	(.00) <sup>c</sup>	(.00) <sup>c</sup>	(.00) <sup>c</sup>	–
Net asset value, end of period	25.06	23.69	18.84	26.59	34.47
<b>Total Return (%)</b>	5.94	25.75	(29.14)	(22.85)	–
<b>Ratios/Supplemental Data (%):</b>					
Ratio of total expenses to average net assets	1.06	1.09	1.03	1.09	–
Ratio of net expenses to average net assets	1.06	1.09	1.03	1.09	–
Ratio of net investment income (loss) to average net assets	.17	(.14)	(.01)	(.20)	–
Portfolio Turnover Rate	55.54	63.17	90.07	110.82	63.60
Net Assets, end of period (\$ x 1,000)	13,492	12,202	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” or “Dreyfus”) serves as the fund’s investment adviser. The Manager is a wholly-owned subsidiary of Mellon Financial Corporation (“Mellon Financial”).

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. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

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

The fund enters into contracts that contain a variety of indemnifications. The fund's maximum exposure under these arrangements is unknown. The fund does not anticipate recognizing any loss related to these arrangements.

**(a) Portfolio valuation:** Investments in securities are valued at the last sales price on the securities exchange or national securities market on which such securities are primarily traded. Securities listed on the National Market System for which market quotations are available are valued at the official closing price or, if there is no official closing price that day, at the last sales price. Securities not listed on an exchange or the national securities market, or securities for which there were no transactions, are valued at the average of the most recent bid and asked prices, except for open short positions, where the asked price is used for valuation purposes. Bid price is used when no asked price is available. Investments in registered investment companies are valued at their net asset value. When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Board of Directors. Fair valuing of securities may be determined with the assistance of a pricing service using calculations based on indices of domestic securities and other appropriate indicators, such as prices of relevant ADR's and futures contracts. For other securities that are fair valued by the Board of Directors, certain factors may be considered such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold and public trading in similar securities of the issuer or comparable issuers.

**(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, accretion of discount and amortization of premium on investments, is recognized on the accrual basis.

The fund has an arrangement with the custodian bank whereby the fund receives earnings credits from the custodian when positive cash balances are maintained, which are used to offset custody fees. For financial reporting purposes, the fund includes net earnings credits as an expense offset in the Statement of Operations.

Pursuant to a securities lending agreement with Mellon Bank, N.A., an affiliate of the Manager, the fund may lend securities to qualified institutions. At origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan will be maintained at all times. Cash collateral is invested in certain money market mutual funds managed by the Manager. The fund 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 fund 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.

**(c) Affiliated issuers:** Investments in other investment companies advised by the Manager are defined as “affiliated” in the Act.

**(d) 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. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles.

**(e) Federal income taxes:** It is the policy of the fund to continue to qualify as a regulated investment company, if such qualification is in the best interests of its shareholders, by complying with the applicable provisions of the Code, and to make distributions of taxable income sufficient to relieve it from substantially all federal income and excise taxes.

At December 31, 2004, the components of accumulated earnings on a tax basis were as follows: accumulated capital losses \$283,758,229 and unrealized appreciation \$89,423,380.

The accumulated capital loss carryover is available to be applied against future net securities profits, if any, realized subsequent to December 31, 2004. If not applied, \$160,153,013 of the carryover expires in fiscal 2009, \$103,833,733 expires in fiscal 2010 and \$19,771,483 expires in fiscal 2011.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2004 and December 31, 2003 were as follows: ordinary income \$1,911,425 and \$531,796, respectively.

During the period ended December 31, 2004, as a result of permanent book to tax differences primarily due to the tax treatment for distributions in excess of investment income, the fund increased accumulated undistributed investment income-net by \$7,309 and decreased paid-in capital by the same amount. Net assets were not affected by this reclassification.

**NOTE 2—Bank Line of Credit:**

The fund participates with other Dreyfus-managed funds in a \$350 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. During the period ended December 31, 2004, the fund did not borrow under the Facility.

**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 fund's average daily net assets and is payable monthly.

(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, 2004, Service shares were charged \$31,797 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, 2004, Initial shares were charged \$13,470 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, 2004, the fund was charged \$1,269 pursuant to the transfer agency agreement.

The fund compensates Mellon Bank, N.A., an affiliate of the Manager, under a custody agreement for providing custodial services for the fund. During the period ended December 31, 2004, the fund was charged \$40,862 pursuant to the custody agreement.

The components of Due to The Dreyfus Corporation and affiliates in the Statement of Assets and Liabilities consist of: investment advisory fees \$318,240, Rule 12b-1 distribution plan fees \$2,832, shareholder services plan fees \$686, custodian fees \$5,209 and transfer agency per account fees \$214.

(d) Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

**NOTE 4—Securities Transactions:**

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended December 31, 2004, amounted to \$274,193,378 and \$326,467,826, respectively.

At December 31, 2004, the cost of investments for federal income tax purposes was \$413,520,751; accordingly, accumulated net unrealized appreciation on investments was \$89,423,380, consisting of \$93,698,132 gross unrealized appreciation and \$4,274,752 gross unrealized depreciation.

**NOTE 5—Legal Matters:**

In early 2004, two purported class and derivative actions were filed against Mellon Financial, Mellon Bank, N.A., Dreyfus, Founders Asset Management LLC, and certain directors of the Dreyfus Funds and the Dreyfus Founders Funds (together, the “Funds”). In September 2004, plaintiffs served a Consolidated Amended Complaint (the “Amended Complaint”) on behalf of a purported class of all persons who acquired interests in any of the Funds between January 30, 1999 and November 17, 2003, and derivatively on behalf of the Funds. The



Amended Complaint in the newly styled In re Dreyfus Mutual Funds Fee Litigation also named the Distributor, Premier Mutual Fund Services, Inc. and two additional Fund directors as defendants and alleges violations of the Investment Company Act of 1940, the Investment Advisers Act of 1940, the Pennsylvania Unfair Trade Practices and Consumer Protection Law and common-law claims. Plaintiffs seek to recover allegedly improper and excessive Rule 12b-1 and advisory fees allegedly charged to the Funds for marketing and distribution services. More specifically, plaintiffs claim, among other things, that 12b-1 fees and directed brokerage were improperly used to pay brokers to recommend the Funds over other funds, and that such payments were not disclosed to investors. In addition, plaintiffs assert that economies of scale and soft-dollar benefits were not passed on to the Funds. Plaintiffs further allege that 12b-1 fees were improperly charged to certain of the Funds that were closed to new investors. The Amended Complaint seeks compensatory and punitive damages, rescission of the advisory contracts, and an accounting and restitution of any unlawful fees, as well as an award of attorneys' fees and litigation expenses. As noted, some of the claims in this litigation are asserted derivatively on behalf of the Funds that have been named as nominal defendants. With respect to such derivative claims, no relief is sought against the Funds. Dreyfus believes the allegations to be totally without merit and intends to defend the action vigorously. Defendants filed motions to dismiss the Amended Complaint on November 12, 2004, and those motions are pending.

Additional lawsuits arising out of these circumstances and presenting similar allegations and requests for relief may be filed against the defendants in the future. Neither Dreyfus nor the Funds believe that any of the pending actions will have a material adverse effect on the Funds or Dreyfus' ability to perform its contract with the Funds.

REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

**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, 2004, 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 the standards of the Public Company Accounting Oversight Board (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, 2004 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, 2004, 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 U.S. generally accepted accounting principles.

*Ernst & Young LLP*

New York, New York  
February 3, 2005

## 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, 2004 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in January 2005 of the percentage applicable to the preparation of their 2004 income tax returns.

## BOARD MEMBERS INFORMATION (Unaudited)

### **Joseph S. DiMartino (61)** **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
- Azimuth Trust, an institutional asset management firm, Member of Board of Managers and Advisory Board

*No. of Portfolios for which Board Member Serves:* 186

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### **Clifford L. Alexander, Jr. (71)** **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–October 2003)
- Chairman of the Board and Chief Executive Officer of The Dun and Bradstreet Corporation (October 1999–September 2000)

*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:* 65

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### **Lucy Wilson Benson (77)** **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 Chairperson
- Council on Foreign Relations, Member
- Lafayette College Board of Trustees, Vice Chairperson
- Atlantic Council of the U.S., Director

*No. of Portfolios for which Board Member Serves:* 39

BOARD MEMBERS INFORMATION (Unaudited) (continued)

**David W. Burke (68)**  
**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:* 83

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**Whitney I. Gerard (70)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- Partner of Chadbourne & Parke LLP

*No. of Portfolios for which Board Member Serves:* 37

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**Arthur A. Hartman (78)**  
**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:*

- APCO Associates, Inc., Senior Consultant

*No. of Portfolios for which Board Member Serves:* 37

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**George L. Perry (70)**  
**Board Member (2003)**

*Principal Occupation During Past 5 Years:*

- Economist and Senior Fellow at Brookings Institution

*No. of Portfolios for which Board Member Serves:* 37

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*Once elected all Board Members serve for an indefinite term. The address of the Board Members and Officers is in c/o The Dreyfus Corporation, 200 Park Avenue, New York, New York 10166. Additional information about the Board Members 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 92 investment companies (comprised of 185 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 59 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 92 investment companies (comprised of 185 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 51 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 93 investment companies (comprised of 201 portfolios) managed by the Manager. He is 58 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 93 investment companies (comprised of 201 portfolios) managed by the Manager. He is 55 years old and has been an employee of the Manager since July 1980.

### **ROBERT R. MULLERY, Assistant Secretary since January 2003.**

Associate General Counsel of the Manager, and an officer of 26 investment companies (comprised of 60 portfolios) managed by the Manager. He is 52 years old and has been an employee of the Manager since May 1986.

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

Associate General Counsel of the Manager, and an officer of 26 investment companies (comprised of 88 portfolios) managed by the Manager. He is 39 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 90 investment companies (comprised of 194 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since October 1991.

OFFICERS OF THE FUND (Unaudited) (continued)

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

Director – Mutual Fund Accounting of the Manager, and an officer of 93 investment companies (comprised of 201 portfolios) managed by the Manager. He is 46 years old and has been an employee of the Manager since April 1985.

**RICHARD CASSARO, Assistant Treasurer since August 2003.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 26 investment companies (comprised of 102 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since September 1982.

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

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 27 investment companies (comprised of 107 portfolios) managed by the Manager. He is 37 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 93 investment companies (comprised of 201 portfolios) managed by the Manager. He is 50 years old and has been an employee of the Manager since June 1993.

**JOSEPH W. CONNOLLY, Chief Compliance Officer since October 2004.**

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (93 investment companies, comprising 201 portfolios). From November 2001 through March 2004, Mr. Connolly was first Vice-President, Mutual Fund Servicing for Mellon Global Securities Services. In that capacity, Mr. Connolly was responsible for managing Mellon's Custody, Fund Accounting and Fund Administration services to third-party mutual fund clients. He is 47 years old and has served in various capacities with the Manager since 1980, including manager of the firm's Fund Accounting Department from 1997 through October 2001.

**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 88 investment companies (comprised of 196 portfolios) managed by the Manager. He is 34 years old and has been an employee of the Distributor since October 1998.





NOTES



# For More Information

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

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

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the policies and procedures that the fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the fund voted these proxies for the 12-month period ended June 30, 2004, is available through the fund's website at <http://www.dreyfus.com> and on the SEC's website at <http://www.sec.gov>. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-645-6561.



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# Scudder Variable Series I

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Growth and Income Portfolio  
Capital Growth Portfolio  
21st Century Growth Portfolio  
Global Discovery Portfolio  
International Portfolio  
Health Sciences Portfolio

**Annual Report to Shareholders**  
December 31, 2004

# Contents

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## **Performance Summary, Information About Your Portfolio's Expenses, Management Summary, Investment Portfolio, Financial Statements and Financial Highlights for:**

3	Growth and Income Portfolio
12	Capital Growth Portfolio
21	21st Century Growth Portfolio
30	Global Discovery Portfolio
39	International Portfolio
48	Health Sciences Portfolio
57	Notes to Financial Statements
64	Report of Independent Registered Public Accounting Firm
65	Tax Information
65	Proxy Voting
66	Trustees and Officers

**This report must be preceded or accompanied by a prospectus. To obtain a prospectus, call (800) 778-1482 or your financial representative. We advise you to consider the product's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other important information about the investment product. Please read the prospectus carefully before you invest.**

*NOT FDIC/NCUA INSURED NO BANK GUARANTEE MAY LOSE VALUE*

*Investments in variable 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 the prospectus for specific details regarding a portfolio's investments and risk profile.*

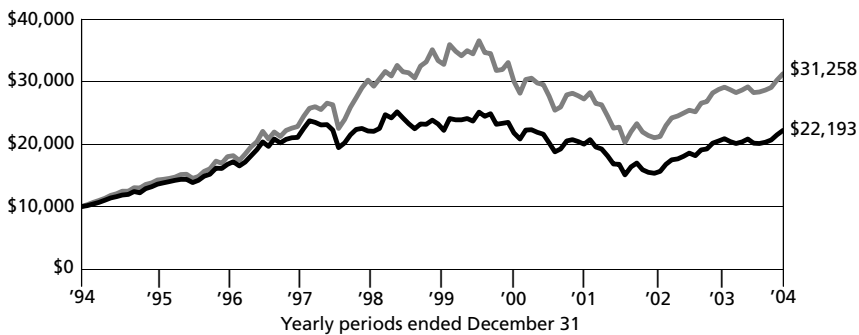
## Growth and Income Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this Portfolio's prospectus for specific information regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment

- Growth and Income Portfolio — Class A
- S&P 500 Index



The Standard & Poor's 500 (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 the 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 (as of December 31, 2004)

Growth and Income Portfolio		1-Year	3-Year	5-Year	10-Year
Class A	Growth of \$10,000	\$11,016	\$10,733	\$9,320	\$22,193
	Average annual total return	10.16%	2.39%	-1.40%	8.30%
S&P 500 Index	Growth of \$10,000	\$11,088	\$11,115	\$8,902	\$31,258
	Average annual total return	10.88%	3.59%	-2.30%	12.07%
Growth and Income Portfolio		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of \$10,000	\$10,978	\$10,641	\$9,192	\$12,742
	Average annual total return	9.78%	2.09%	-1.67%	3.21%
S&P 500 Index	Growth of \$10,000	\$11,088	\$11,115	\$8,902	\$16,982
	Average annual total return	10.88%	3.59%	-2.30%	7.15%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced selling Class B shares on May 1, 1997. Index returns begin April 30, 1997.

# Information About Your Portfolio's Expenses

## Growth and Income Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,067.80	\$ 1,065.70
Expenses Paid per \$1,000*	\$ 2.90	\$ 4.67
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,022.40	\$ 1,020.69
Expenses Paid per \$1,000*	\$ 2.84	\$ 4.56

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series I — Growth and Income Portfolio	.56%	.90%

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

## Growth and Income Portfolio

Improved earnings, an increase in company mergers and post-presidential election sentiment all contributed to US stock-market gains in 2004. Despite a spike in oil prices in the second half of the year, which helped energy stocks substantially, all sectors managed to finish in positive territory.

The portfolio returned 10.16% for the year (Class A shares, unadjusted for contract charges), compared to a 10.88% return for the Standard & Poor's 500 (S&P 500) Index. Telecommunications was the greatest positive contributor to relative performance, as AT&T Wireless Services\* rallied on news of its takeover by Cingular. Health Care also added to the portfolio's return. An underweight in pharmaceuticals proved beneficial in what was a difficult year for the industry. Further, holdings in health insurers and providers had strong returns in part on the sentiment that President Bush's re-election would be a boom to the industry.

Careful stock selection among beverage and food companies added to return in consumer staples. A weakening dollar made the exports of US companies cheaper overseas, thus improving sales. Combined with strengthening company fundamentals, this helped the performance of the portfolio's materials stocks.

The portfolio's greatest weakness was in consumer discretionary. Despite a year that included the Olympic games and a presidential election, advertising profits remained soft, and the portfolio's holdings among media stocks suffered as a result. Further dampening performance was a lack of meaningful exposure to the hotel and restaurant industry, which enjoyed a substantial rally over the year.

The portfolio remains positioned for anticipated growth in capital spending and a continued increase in company mergers. The managers remain focused on building a diversified portfolio, using a blend of valuation screens, fundamental research and risk analysis.

Gregory S. Adams  
*Lead Portfolio Manager*

Andrew Brudenell  
*Portfolio Manager*

*\*Not held in the portfolio at the end of the reporting period.*

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

## Risk Considerations

The portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this portfolio's prospectus for specific information regarding its investments and risk profile.

*The Standard & Poor's 500 (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 the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*



# Portfolio Summary

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## Growth and Income Portfolio

<b>Asset Allocation</b>	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	97%	97%
Cash Equivalents	3%	3%
	100%	100%

<b>Sector Diversification (Excludes Cash Equivalents)</b>	<b>12/31/04</b>	<b>12/31/03</b>
Financials	18%	18%
Information Technology	18%	20%
Industrials	14%	13%
Health Care	12%	14%
Consumer Discretionary	11%	13%
Consumer Staples	9%	8%
Energy	8%	6%
Materials	4%	2%
Telecommunication Services	3%	4%
Utilities	3%	2%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 7. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month. Please call 1-800-778-1482.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.



	Shares	Value (\$)
<b>Information Technology 17.2%</b>		
<b>Communications Equipment 2.8%</b>		
Cisco Systems, Inc.*	195,300	3,769,290
Motorola, Inc.	109,800	1,888,560
		<b>5,657,850</b>
<b>Computers &amp; Peripherals 4.3%</b>		
Dell, Inc.*	64,300	2,709,602
EMC Corp.*	168,000	2,498,160
International Business Machines Corp.	36,800	3,627,744
		<b>8,835,506</b>
<b>Internet Software &amp; Services 0.8%</b>		
Yahoo!, Inc.*	44,400	1,672,992
<b>IT Consulting &amp; Services 0.9%</b>		
Accenture Ltd. "A"*	65,900	1,779,300
<b>Semiconductors &amp; Semiconductor Equipment 2.2%</b>		
Altera Corp.*	58,700	1,215,090
Analog Devices, Inc.	31,600	1,166,672
Texas Instruments, Inc.	85,500	2,105,010
		<b>4,486,772</b>
<b>Software 6.2%</b>		
Microsoft Corp.	276,600	7,387,986
Oracle Corp.*	224,400	3,078,768
Symantec Corp.* (c)	35,100	904,176
VERITAS Software Corp.*	47,400	1,353,270
		<b>12,724,200</b>
<b>Materials 4.0%</b>		
<b>Chemicals 2.1%</b>		
E.I. du Pont de Nemours & Co.	34,800	1,706,940
Monsanto Co.	49,400	2,744,170
		<b>4,451,110</b>

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$175,275,234. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$31,556,288. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$37,208,080 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$5,651,792.

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

(c) At December 31, 2004, this security has been segregated, in part or whole, to cover written options.

ADR: American Depositary Receipts

Covered Written Options	Contracts	Expiration Date	Strike Price (\$)	Value (\$)
<b>Call Options</b>				
Symantec Corp.	119	1/22/2005	35	598
<b>Total outstanding written options (Premiums received \$9,684)</b>				<b>598</b>

For the year ended December 31, 2004, transactions for written options were as follows for the Growth and Income Portfolio:

	Contract Amounts	Premium (\$)
Beginning of period	—	—
Written	119	9,684
Closed	—	—
Expired	—	—
<b>End of period</b>	<b>119</b>	<b>9,684</b>

Purchases and sales of investment securities (excluding short-term investments) for the year ended December 31, 2004, aggregated \$66,302,161 and \$59,631,263, respectively.

At December 31, 2004, the Growth and Income Portfolio had a net tax basis capital loss carryforward of approximately \$35,930,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 (\$6,650,000), December 31, 2010 (\$22,250,000) and December 31, 2011 (\$7,030,000), the respective expiration dates, whichever occurs first.

#### Metals & Mining 0.8%

Alcoa, Inc.	51,200	1,608,704
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#### Paper & Forest Products 1.1%

Georgia-Pacific Corp.	59,300	2,222,564
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#### Telecommunication Services 2.9%

##### Diversified Telecommunication Services

ALLTEL Corp.	25,500	1,498,380
Sprint Corp.	72,600	1,804,110
Verizon Communications, Inc.	67,672	2,741,393
		<b>6,043,883</b>

#### Utilities 3.4%

##### Electric Utilities

Entergy Corp.	14,800	1,000,332
Exelon Corp.	72,800	3,208,296
PG&E Corp.*	55,200	1,837,056
TXU Corp.	15,500	1,000,680
		<b>7,046,364</b>

<b>Total Common Stocks (Cost \$166,272,666)</b>		<b>199,699,585</b>
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#### Cash Equivalents 3.5%

Scudder Cash Management QP Trust, 2.24% (b) (Cost \$7,131,937)	7,131,937	7,131,937
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	% of Net Assets	Value (\$)
<b>Total Investment Portfolio</b> (Cost \$173,404,603) (a)	101.0	206,831,522
<b>Other Assets and Liabilities, Net</b>	(1.0)	(2,087,106)
<b>Net Assets</b>	100.0	<b>204,744,416</b>

# Financial Statements

## Growth and Income Portfolio

### Statement of Assets and Liabilities as of December 31, 2004

#### Assets

Investments:	
Investments in securities, at value (cost \$166,272,666)	\$ 199,699,585
Investment in Scudder Cash Management QP Trust (cost \$7,131,937)	7,131,937
Total investments in securities, at value (cost \$173,404,603)	206,831,522
Receivable for investments sold	9,343
Receivable for Portfolio shares sold	511,646
Dividends receivable	167,786
Interest receivable	9,570
Foreign taxes recoverable	13,302
Other assets	9,422
<b>Total assets</b>	<b>207,552,591</b>

#### Liabilities

Due to custodian bank	14,064
Payable for investments purchased	2,524,791
Payable for Portfolio shares redeemed	110,917
Written options, at value (premiums received \$9,684)	598
Accrued management fee	84,449
Other accrued expenses and payables	73,356
<b>Total liabilities</b>	<b>2,808,175</b>
<b>Net assets, at value</b>	<b>\$ 204,744,416</b>

#### Net Assets

Net assets consist of:	
Undistributed net investment income	2,360,421
Net unrealized appreciation (depreciation) on:	
Investments	33,426,919
Written options	9,086
Accumulated net realized gain (loss)	(37,797,191)
Paid-in capital	206,745,181
<b>Net assets, at value</b>	<b>\$ 204,744,416</b>

#### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$171,673,086 ÷ 18,483,989 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) \$		<b>9.29</b>
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#### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$33,071,330 ÷ 3,576,021 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) \$		<b>9.25</b>
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### Statement of Operations for the year ended December 31, 2004

#### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$19,209)	\$ 3,479,761
Interest — Scudder Cash Management QP Trust	61,489
Securities lending income, including income from Daily Assets Fund Institutional	7,768
<b>Total Income</b>	<b>3,549,018</b>
Expenses:	
Management fee	870,770
Custodian fees	12,629
Accounting fees	66,951
Distribution service fees (Class B)	61,944
Record keeping fees (Class B)	20,075
Auditing	29,978
Legal	11,473
Trustees' fees and expenses	8,557
Reports to shareholders	20,574
Other	9,536
<b>Total expenses, before expense reductions</b>	<b>1,112,487</b>
Expense reductions	(2,403)
<b>Total expenses, after expense reductions</b>	<b>1,110,084</b>
<b>Net investment income (loss)</b>	<b>2,438,934</b>

#### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	6,835,797
Net unrealized appreciation (depreciation) during the period on:	
Investments	8,942,547
Written options	9,086
	8,951,633
<b>Net gain (loss) on investment transactions</b>	<b>15,787,430</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 18,226,364</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 2,438,934	\$ 1,355,887
Net realized gain (loss) on investment transactions	6,835,797	(2,190,678)
Net unrealized appreciation (depreciation) on investment transactions during the period	8,951,633	37,960,524
Net increase (decrease) in net assets resulting from operations	18,226,364	37,125,733
Distributions to shareholders from:		
Net investment income:		
Class A	(1,239,211)	(1,476,002)
Class B	(112,919)	(71,436)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	22,740,822	16,861,930
Reinvestment of distributions	1,239,211	1,476,002
Cost of shares redeemed	(27,224,855)	(25,120,246)
Net increase (decrease) in net assets from Class A share transactions	(3,244,822)	(6,782,314)
<b>Class B</b>		
Proceeds from shares sold	16,908,894	9,818,320
Reinvestment of distributions	112,919	71,436
Cost of shares redeemed	(4,470,402)	(1,439,484)
Net increase (decrease) in net assets from Class B share transactions	12,551,411	8,450,272
<b>Increase (decrease) in net assets</b>	<b>26,180,823</b>	<b>37,246,253</b>
Net assets at beginning of period	178,563,593	141,317,340
Net assets at end of period (including undistributed net investment income of \$2,360,421 and \$1,273,616, respectively)	<b>\$ 204,744,416</b>	<b>\$ 178,563,593</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	18,896,518	19,882,920
Shares sold	2,601,316	2,314,339
Shares issued to shareholders in reinvestment of distributions	146,478	208,181
Shares redeemed	(3,160,323)	(3,508,922)
Net increase (decrease) in Portfolio shares	(412,529)	(986,402)
Shares outstanding at end of period	<b>18,483,989</b>	<b>18,896,518</b>
<b>Class B</b>		
Shares outstanding at beginning of period	2,114,110	990,738
Shares sold	1,958,270	1,308,947
Shares issued to shareholders in reinvestment of distributions	13,379	10,104
Shares redeemed	(509,738)	(195,679)
Net increase (decrease) in Portfolio shares	1,461,911	1,123,372
Shares outstanding at end of period	<b>3,576,021</b>	<b>2,114,110</b>

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

# Financial Highlights

## Growth and Income Portfolio

### Class A

Years Ended December 31,	2004	2003	2002	2001	2000
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.50	\$ 6.77	\$ 8.90	\$ 10.38	\$ 10.96
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.12	.07	.07	.09	.11
Net realized and unrealized gain (loss) on investment transactions	.74	1.74	(2.12)	(1.23)	(.33)
<b>Total from investment operations</b>	<b>.86</b>	<b>1.81</b>	<b>(2.05)</b>	<b>(1.14)</b>	<b>(.22)</b>
<i>Less distributions from:</i>					
Net investment income	(.07)	(.08)	(.08)	(.12)	(.15)
Net realized gains on investment transactions	—	—	—	(.22)	(.21)
<b>Total distributions</b>	<b>(.07)</b>	<b>(.08)</b>	<b>(.08)</b>	<b>(.34)</b>	<b>(.36)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.29</b>	<b>\$ 8.50</b>	<b>\$ 6.77</b>	<b>\$ 8.90</b>	<b>\$ 10.38</b>
Total Return (%)	10.16	26.74	(23.13)	(11.30)	(2.10)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	172	161	135	185	185
Ratio of expenses before expense reductions (%)	.56	.59	.57	.57 <sup>b</sup>	.56
Ratio of expenses after expense reductions (%)	.56	.59	.57	.56 <sup>b</sup>	.56
Ratio of net investment income (loss) (%)	1.37	.91	.92	.94	1.06
Portfolio turnover rate (%)	33	37	66	67	65

### Class B

Years Ended December 31,	2004	2003	2002	2001	2000
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.47	\$ 6.75	\$ 8.87	\$ 10.35	\$ 10.93
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.09	.05	.05	.06	.09
Net realized and unrealized gain (loss) on investment transactions	.73	1.73	(2.12)	(1.23)	(.33)
<b>Total from investment operations</b>	<b>.82</b>	<b>1.78</b>	<b>(2.07)</b>	<b>(1.17)</b>	<b>(.24)</b>
<i>Less distributions from:</i>					
Net investment income	(.04)	(.06)	(.05)	(.09)	(.13)
Net realized gains on investment transactions	—	—	—	(.22)	(.21)
<b>Total distributions</b>	<b>(.04)</b>	<b>(.06)</b>	<b>(.05)</b>	<b>(.31)</b>	<b>(.34)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.25</b>	<b>\$ 8.47</b>	<b>\$ 6.75</b>	<b>\$ 8.87</b>	<b>\$ 10.35</b>
Total Return (%)	9.78	26.55	(23.40)	(11.56)	(2.33)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	33	18	7	10	13
Ratio of expenses before expense reductions (%)	.89	.85	.82	.82 <sup>b</sup>	.81
Ratio of expenses after expense reductions (%)	.89	.85	.82	.81 <sup>b</sup>	.81
Ratio of net investment income (loss) (%)	1.04	.65	.67	.69	.81
Portfolio turnover rate (%)	33	37	66	67	65

<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.

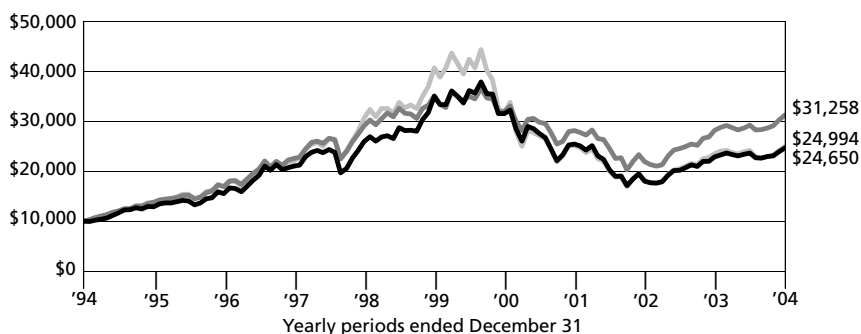
## Capital Growth Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.

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### 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 the 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 (as of December 31, 2004)

Capital Growth Portfolio		1-Year	3-Year	5-Year	10-Year
Class A	Growth of \$10,000	\$10,799	\$9,703	\$7,050	\$24,650
	Average annual total return	7.99%	-1.00%	-6.75%	9.44%
S&P 500 Index	Growth of \$10,000	\$11,088	\$11,115	\$8,902	\$31,258
	Average annual total return	10.88%	3.59%	-2.30%	12.07%
Russell 1000 Growth Index	Growth of \$10,000	\$10,630	\$9,946	\$6,140	\$24,994
	Average annual total return	6.30%	-.18%	-9.29%	9.59%
<hr/>					
Capital Growth Portfolio		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of \$10,000	\$10,756	\$9,611	\$6,941	\$13,580
	Average annual total return	7.56%	-1.31%	-7.04%	4.09%
S&P 500 Index	Growth of \$10,000	\$11,088	\$11,115	\$8,902	\$16,007
	Average annual total return	10.88%	3.59%	-2.30%	6.40%
Russell 1000 Growth Index	Growth of \$10,000	\$10,630	\$9,946	\$6,140	\$12,874
	Average annual total return	6.30%	-.18%	-9.29%	3.39%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced selling Class B shares on May 12, 1997. Index returns begin May 31, 1997.

# Information About Your Portfolio's Expenses

## Capital Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

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\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

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### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,042.60	\$ 1,040.70
Expenses Paid per \$1,000*	\$ 2.62	\$ 4.53
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,022.64	\$ 1,020.76
Expenses Paid per \$1,000*	\$ 2.59	\$ 4.49

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series I — Capital Growth Portfolio	.51%	.88%

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



## Capital Growth Portfolio

Large-cap equities gained ground in 2004, as strong earnings results outweighed the various concerns that periodically rattled the market. The growth style lagged value by a substantial margin, due largely to the underperformance of the health care and technology sectors. In this environment, the portfolio returned 7.99% (Class A shares, unadjusted for contract charges), trailing the 10.88% return of the Standard & Poor's 500 (S&P 500) index but outperforming the 6.30% return of the Russell 1000 Growth Index.

An overweight to the strong-performing energy sector was a distinct positive. We believe attractive long-term growth opportunities exist in the industry, particularly in the equipment and service area, independent of movements in the price of crude oil. Performance also was helped significantly by our selection within health care, where we emphasized biotechnology and medical equipment companies and held a corresponding underweight in the underperforming pharmaceuticals industry.

Poor stock selection within information technology was the largest detractor. Our positioning within technology emphasized consistent earners over more cyclical companies, given our view that industry profit growth is likely to slow. Selection within financials, where the portfolio is underweight in insurance and overweight in market-sensitive companies, also detracted.

Believing higher-quality growth companies are positioned for further outperformance versus lower-quality names, we remain dedicated to building a diversified, high-quality portfolio. In addition, we believe we can add significant value over the long-term by continuing to look for growth opportunities in nontraditional growth sectors, such as consumer staples.

Julie M. Van Cleave

Jack A. Zehner

Thomas J. Schmid

*Portfolio Managers*

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

## Risk Considerations

The portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this portfolio's prospectus for specific information regarding its investments and risk profile.

*The Standard & Poor's 500 (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 all distributions and do not reflect fees or expenses. It is not possible to invest directly in an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## Capital Growth Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	97%	97%
Cash Equivalents	2%	3%
Exchange Traded Fund	1%	—
	<b>100%</b>	<b>100%</b>

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Information Technology	23%	25%
Health Care	21%	21%
Consumer Discretionary	16%	16%
Consumer Staples	11%	11%
Energy	10%	7%
Financials	9%	11%
Industrials	8%	7%
Telecommunication Services	1%	1%
Materials	1%	1%
	<b>100%</b>	<b>100%</b>

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 16. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month. Please call 1-800-778-1482.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.



	Shares	Value (\$)
<b>Air Freight &amp; Logistics 1.3%</b>		
FedEx Corp.	93,700	9,228,513
<b>Industrial Conglomerates 4.3%</b>		
3M Co.	73,000	5,991,110
General Electric Co.	688,100	25,115,650
		<b>31,106,760</b>
<b>Machinery 0.6%</b>		
Caterpillar, Inc.	43,100	4,202,681
<b>Information Technology 22.3%</b>		
<b>Communications Equipment 3.3%</b>		
Cisco Systems, Inc.*	648,300	12,512,190
QUALCOMM, Inc.	258,700	10,968,880
		<b>23,481,070</b>
<b>Computers &amp; Peripherals 4.5%</b>		
Dell, Inc.*	153,500	6,468,490
EMC Corp.*	868,100	12,908,647
International Business Machines Corp.	134,900	13,298,442
		<b>32,675,579</b>
<b>IT Consulting &amp; Services 2.7%</b>		
Accenture Ltd. "A"*	252,000	6,804,000
Fiserv, Inc.*	234,400	9,420,536
Paychex, Inc.	97,200	3,312,576
		<b>19,537,112</b>
<b>Semiconductors &amp; Semiconductor Equipment 3.7%</b>		
Intel Corp.	617,200	14,436,308
Linear Technology Corp.	207,100	8,027,196
Texas Instruments, Inc.	169,200	4,165,704
		<b>26,629,208</b>
<b>Software 8.1%</b>		
Adobe Systems, Inc.	36,000	2,258,640
Electronic Arts, Inc.* (c)	210,500	12,983,640
Intuit, Inc.*	102,800	4,524,228
Microsoft Corp.	992,300	26,504,333
Oracle Corp.*	437,600	6,003,872

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$587,851,970. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$148,965,119. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$169,717,580 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$20,752,461.

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

(c) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$14,772,260, which is 2.0% of total net assets.

(d) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.

(e) Represents collateral held in connection with securities lending.

Purchases and sales of investment securities (excluding short-term investments) for the year ended December 31, 2004, aggregated \$106,130,647 and \$141,613,328, respectively.

At December 31, 2004, the Capital Growth Portfolio had a net tax basis capital loss carryforward of approximately \$232,875,000 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), December 31, 2010 (\$121,030,000), December 31, 2011 (\$65,191,000) and December 31, 2012 (\$28,616,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2004 through December 31, 2004, the Portfolio incurred approximately \$18,631,000 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, 2005.

	Shares	Value (\$)
Symantec Corp.*	246,600	6,352,416
		<b>58,627,129</b>
<b>Materials 0.9%</b>		
<b>Chemicals</b>		
Ecolab, Inc.	176,800	6,210,984
<b>Telecommunication Services 0.7%</b>		
<b>Diversified Telecommunication Services</b>		
Verizon Communications, Inc.	122,500	4,962,475
<b>Total Common Stocks (Cost \$554,181,844)</b>		<b>704,062,728</b>

#### Exchange Traded Fund 0.5%

Semiconductor HOLDRs Trust (Cost \$3,643,152)	104,500	3,486,120
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#### Securities Lending Collateral 2.1%

Daily Assets Fund Institutional, 2.25% (d) (e) (Cost \$15,185,800)	15,185,800	15,185,800
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#### Cash Equivalents 1.9%

Scudder Cash Management QP Trust, 2.24% (b) (Cost \$14,082,441)	14,082,441	14,082,441
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	% of Net Assets	Value (\$)
<b>Total Investment Portfolio</b> (Cost \$587,093,237) (a)	102.1	736,817,089
<b>Other Assets and Liabilities, Net</b>	(2.1)	(15,324,815)
<b>Net Assets</b>	100.0	721,492,274

# Financial Statements

## Capital Growth Portfolio

### Statement of Assets and Liabilities as of December 31, 2004

#### Assets

Investments:	
Investments in securities, at value — including \$14,772,260 of securities loaned (cost \$557,824,996)	\$ 707,548,848
Investment in Daily Asset Fund Institutional (cost \$15,185,800)*	15,185,800
Investment in Scudder Cash Management QP Trust (cost \$14,082,441)	14,082,441
<b>Total investments in securities, at value (cost \$587,093,237)</b>	<b>736,817,089</b>
Dividends receivable	541,545
Interest receivable	22,094
Receivable for Portfolio shares sold	40,563
Other assets	35,505
<b>Total assets</b>	<b>737,456,796</b>

#### Liabilities

Payable upon return of securities loaned	15,185,800
Payable for Portfolio shares redeemed	416,441
Accrued management fee	276,760
Other accrued expenses and payables	85,521
<b>Total liabilities</b>	<b>15,964,522</b>
<b>Net assets, at value</b>	<b>\$ 721,492,274</b>

#### Net Assets

Net assets consist of:	
Undistributed net investment income	6,697,719
Net unrealized appreciation (depreciation) on investments	149,723,852
Accumulated net realized gain (loss)	(252,264,595)
Paid-in capital	817,335,298
<b>Net assets, at value</b>	<b>\$ 721,492,274</b>

#### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$698,047,691 ÷ 44,544,616 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 15.67</b>
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#### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$23,444,583 ÷ 1,503,725 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 15.59</b>
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\* Represents collateral on securities loaned.

### Statement of Operations for the year ended December 31, 2004

#### Investment Income

Income:	
Dividends	\$ 10,311,847
Interest — Scudder Cash Management QP Trust	180,934
Securities lending income, including income from Daily Assets Fund Institutional	8,745
<b>Total Income</b>	<b>10,501,526</b>
Expenses:	
Management fee	3,322,815
Custodian fees	39,209
Accounting fees	119,838
Distribution service fees (Class B)	49,709
Record keeping fees (Class B)	25,279
Auditing	33,075
Legal	3,996
Trustees' fees and expenses	20,425
Reports to shareholders	24,165
Other	14,120
<b>Total expenses, before expense reductions</b>	<b>3,652,631</b>
Expense reductions	(6,259)
<b>Total expenses, after expense reductions</b>	<b>3,646,372</b>
<b>Net investment income (loss)</b>	<b>6,855,154</b>

#### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(47,247,081)
Net unrealized appreciation (depreciation) during the period on investments	94,779,509
<b>Net gain (loss) on investment transactions</b>	<b>47,532,428</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 54,387,582</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 6,855,154	\$ 3,786,922
Net realized gain (loss) on investment transactions	(47,247,081)	(13,492,454)
Net unrealized appreciation (depreciation) on investment transactions during the period	94,779,509	159,146,770
Net increase (decrease) in net assets resulting from operations	54,387,582	149,441,238
Distributions to shareholders from:		
Net investment income:		
Class A	(3,764,724)	(2,595,329)
Class B	(32,841)	(8,219)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	32,110,324	99,262,252
Reinvestment of distributions	3,764,724	2,595,329
Cost of shares redeemed	(92,227,827)	(99,434,360)
Net increase (decrease) in net assets from Class A share transactions	(56,352,779)	2,423,221
<b>Class B</b>		
Proceeds from shares sold	8,550,042	13,042,500
Reinvestment of distributions	32,841	8,219
Cost of shares redeemed	(1,806,233)	(598,220)
Net increase (decrease) in net assets from Class B share transactions	6,776,650	12,452,499
<b>Increase (decrease) in net assets</b>	<b>1,013,888</b>	<b>161,713,410</b>
Net assets at beginning of period	720,478,386	558,764,976
Net assets at end of period (including undistributed net investment income of \$6,697,719 and \$3,640,130, respectively)	<b>\$ 721,492,274</b>	<b>\$ 720,478,386</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	48,332,734	48,337,865
Shares sold	2,172,282	7,881,425
Shares issued to shareholders in reinvestment of distributions	255,928	211,174
Shares redeemed	(6,216,328)	(8,097,730)
Net increase (decrease) in Portfolio shares	(3,788,118)	(5,131)
Shares outstanding at end of period	<b>44,544,616</b>	<b>48,332,734</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,044,792	77,608
Shares sold	579,183	1,011,277
Shares issued to shareholders in reinvestment of distributions	2,239	670
Shares redeemed	(122,489)	(44,763)
Net increase (decrease) in Portfolio shares	458,933	967,184
Shares outstanding at end of period	<b>1,503,725</b>	<b>1,044,792</b>

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

# Financial Highlights

## Capital Growth Portfolio

### Class A

Years Ended December 31,	2004	2003	2002	2001	2000
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 14.59</b>	<b>\$ 11.54</b>	<b>\$ 16.36</b>	<b>\$ 23.07</b>	<b>\$ 29.13</b>
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.14	.08	.05	.05	.08
Net realized and unrealized gain (loss) on investment transactions	1.02	3.03	(4.82)	(4.21)	(2.63)
<b>Total from investment operations</b>	<b>1.16</b>	<b>3.11</b>	<b>(4.77)</b>	<b>(4.16)</b>	<b>(2.55)</b>
<i>Less distributions from:</i>					
Net investment income	(.08)	(.06)	(.05)	(.08)	(.07)
Net realized gains on investment transactions	—	—	—	(2.47)	(3.44)
<b>Total distributions</b>	<b>(.08)</b>	<b>(.06)</b>	<b>(.05)</b>	<b>(2.55)</b>	<b>(3.51)</b>
<b>Net asset value, end of period</b>	<b>\$ 15.67</b>	<b>\$ 14.59</b>	<b>\$ 11.54</b>	<b>\$ 16.36</b>	<b>\$ 23.07</b>
Total Return (%)	7.99	26.89	(29.18)	(19.36)	(9.90)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	698	705	558	866	1,126
Ratio of expenses before expense reductions (%)	.50	.51	.51	.52 <sup>c</sup>	.49
Ratio of expenses after expense reductions (%)	.50	.51	.51	.50 <sup>c</sup>	.49
Ratio of net investment income (loss) (%)	.98	.61	.38	.27	.30
Portfolio turnover rate (%)	15	13	25	33	55

### Class B

Years Ended December 31,	2004	2003	2002	2001	2000
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 14.52</b>	<b>\$ 11.49</b>	<b>\$ 16.29</b>	<b>\$ 23.00</b>	<b>\$ 29.05</b>
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.09	.03	.02	.00 <sup>b</sup>	.01
Net realized and unrealized gain (loss) on investment transactions	1.01	3.02	(4.81)	(4.21)	(2.62)
<b>Total from investment operations</b>	<b>1.10</b>	<b>3.05</b>	<b>(4.79)</b>	<b>(4.21)</b>	<b>(2.61)</b>
<i>Less distributions from:</i>					
Net investment income	(.03)	(.02)	(.01)	(.03)	—
Net realized gains on investment transactions	—	—	—	(2.47)	(3.44)
<b>Total distributions</b>	<b>(.03)</b>	<b>(.02)</b>	<b>(.01)</b>	<b>(2.50)</b>	<b>(3.44)</b>
<b>Net asset value, end of period</b>	<b>\$ 15.59</b>	<b>\$ 14.52</b>	<b>\$ 11.49</b>	<b>\$ 16.29</b>	<b>\$ 23.00</b>
Total Return (%)	7.56	26.51	(29.37)	(19.64)	(10.13)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	23	15	.89	.71	1.16
Ratio of expenses before expense reductions (%)	.88	.87	.76	.77 <sup>c</sup>	.74
Ratio of expenses after expense reductions (%)	.88	.87	.76	.75 <sup>c</sup>	.74
Ratio of net investment income (loss) (%)	.60	.25	.13	.02	.05
Portfolio turnover rate (%)	15	13	25	33	55

<sup>a</sup> Based on average shares outstanding during the period.

<sup>b</sup> Less than \$.005 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 .50% and .50%, and .75% and .75% for Class A and Class B, respectively.

## 21st Century Growth Portfolio

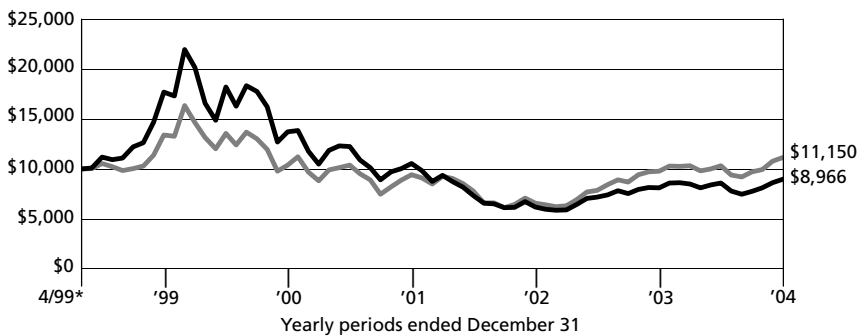
All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk. Stocks of small companies involve greater risk, as they often have limited product lines, markets or financial resources and may be exposed to more erratic and abrupt market movements than securities of larger, more established companies. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

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 Portfolio would be lower.

### Growth of an Assumed \$10,000 Investment

- 21st Century Growth Portfolio — Class A\*
- Russell 2000 Growth Index



The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume the 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 (as of December 31, 2004)

21st Century Growth Portfolio*		1-Year	3-Year	5-Year	Life of Portfolio
Class A	Growth of \$10,000	\$11,086	\$8,523	\$5,075	\$8,966
	Average annual total return	10.86%	-5.19%	-12.69%	-1.91%
Class B	Growth of \$10,000	\$11,059	\$8,488	\$5,013	\$8,814
	Average annual total return	10.59%	-5.32%	-12.90%	-2.20%
Russell 2000 Growth Index					
Growth of \$10,000		\$11,431	\$11,841	\$8,338	\$11,150
Average annual total return		14.31%	5.79%	-3.57%	1.94%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 3, 1999. Index returns begin April 30, 1999.



# Information About Your Portfolio's Expenses

## 21st Century Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,045.30	\$ 1,046.10
Expenses Paid per \$1,000*	\$ 6.52	\$ 7.18
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,018.83	\$ 1,018.19
Expenses Paid per \$1,000*	\$ 6.44	\$ 7.08

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series I — 21st Century Growth Portfolio	1.26%	1.39%

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

## 21st Century Growth Portfolio

Small cap shares produced solid gains in 2004, outperforming both large- and mid-cap issues. Small, low-quality and richly valued companies, which investors had focused on during 2003, continued their reversal in 2004. By contrast, the investment environment favored quality companies with attractive valuations and strong fundamentals (management style, products, sales and earnings) — the type of companies that we favor over the long term. During the year, we found it encouraging that the market was able to weather a mixed bag of labor reports, the insurgency in Iraq, a mid-year spike in oil prices and the hotly contested presidential election. For the 12-month period ended December 31, 2004, the portfolio produced a 10.86% total return (Class A shares, unadjusted for contract charges), though it underperformed the 14.31% return of the Russell 2000 Growth Index.

Stock selection contributed to performance over the 12-month period. Holdings within information technology and financials were the largest contributors. Stock selection within the consumer discretionary sector detracted from performance during the period. In terms of sector allocation, our overweight in information technology was the biggest driver of positive performance over the period, while an overweight in consumer discretionary was a significant detractor.

With underlying economic and market factors supportive of the equity markets, investors should continue to focus on those more profitable small-cap companies that report superior earnings. This should bode well for this segment of the stock market, despite rising interest rates, high energy costs and the weakening dollar.

Samuel A. Dedio  
Robert S. Janis  
*Co-Lead Portfolio Managers*

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. Stocks of small companies involve greater risk, as they often have limited product lines, markets or financial resources and may be exposed to more erratic and abrupt market movements than securities of larger, more established companies. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 2000 Growth Index is an unmanaged capitalization-weighted measure of 2,000 of the smallest capitalized US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## 21st Century Growth Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	98%	96%
Cash Equivalents	2%	4%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Information Technology	29%	36%
Health Care	24%	18%
Consumer Discretionary	21%	16%
Industrials	9%	8%
Financials	8%	9%
Consumer Staples	5%	4%
Energy	3%	4%
Materials	1%	2%
Other	—	3%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 25. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month. Please call 1-800-778-1482.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## 21st Century Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 98.5%</b>					
<b>Consumer Discretionary 21.1%</b>					
<b>Hotels Restaurants &amp; Leisure 8.6%</b>					
Buffalo Wild Wings, Inc.*	18,500	643,985			
Life Time Fitness, Inc.*	26,500	685,820			
P.F. Chang's China Bistro, Inc.*	19,900	1,121,365			
RARE Hospitality International, Inc.*	36,650	1,167,669			
Shuffle Master, Inc.* (c)	22,600	1,064,460			
		<b>4,683,299</b>			
<b>Internet &amp; Catalog Retail 1.2%</b>					
Sharper Image Corp.*	32,700	616,395			
<b>Media 2.1%</b>					
Journal Register Co.*	31,500	608,895			
Lions Gate Entertainment Corp.*	51,000	541,620			
		<b>1,150,515</b>			
<b>Specialty Retail 6.8%</b>					
Aeropostale, Inc.*	41,900	1,233,117			
Hot Topic, Inc.*	62,900	1,081,251			
Kenneth Cole Productions, Inc. "A"	30,100	928,886			
New York & Co., Inc.*	26,800	442,736			
		<b>3,685,990</b>			
<b>Textiles, Apparel &amp; Luxury Goods 2.4%</b>					
Gildan Activewear, Inc. "A"	21,500	730,785			
The Warnaco Group, Inc.*	26,500	572,400			
		<b>1,303,185</b>			
<b>Consumer Staples 4.7%</b>					
<b>Food &amp; Staples Retailing 2.5%</b>					
United Natural Foods, Inc.*	43,200	1,343,520			
<b>Household Products 2.2%</b>					
Jarden Corp.*	28,100	1,220,664			
<b>Energy 2.9%</b>					
<b>Oil &amp; Gas</b>					
Bill Barrett Corp.*	17,800	569,422			
Southwestern Energy Co.*	19,600	993,524			
		<b>1,562,946</b>			
<b>Financials 7.9%</b>					
<b>Capital Markets 3.7%</b>					
Jefferies Group, Inc.	20,000	805,600			
Piper Jaffray Companies, Inc.*	25,300	1,213,135			
		<b>2,018,735</b>			
<b>Diversified Financial Services 2.8%</b>					
Affiliated Managers Group, Inc.*	22,050	1,493,667			
<b>Insurance 1.4%</b>					
KMG America Corp.*	67,700	744,700			
<b>Health Care 23.9%</b>					
<b>Health Care Equipment &amp; Supplies 6.5%</b>					
Advanced Medical Optics, Inc.*	26,200	1,077,868			
American Medical Systems Holdings, Inc.*	14,300	597,883			
ArthroCare Corp.* (c)	25,800	827,148			
Wright Medical Group, Inc.*	35,400	1,008,900			
					<b>3,511,799</b>
<b>Health Care Providers &amp; Services 14.2%</b>					
American Healthways, Inc.* (c)	28,200	931,728			
AMERIGROUP Corp.*	21,900	1,656,954			
Beverly Enterprises, Inc.*	131,200	1,200,480			
Centene Corp.*	70,500	1,998,675			
United Surgical Partners International, Inc.*	28,500	1,188,450			
WellCare Health Plans, Inc.*	23,500	763,750			
					<b>7,740,037</b>
<b>Pharmaceuticals 3.2%</b>					
Able Laboratories, Inc.*	24,700	561,925			
Connetics Corp.*	47,900	1,163,491			
					<b>1,725,416</b>
<b>Industrials 8.5%</b>					
<b>Commercial Services &amp; Supplies 1.3%</b>					
CoStar Group, Inc.*	14,700	678,846			
<b>Machinery 2.8%</b>					
Joy Global, Inc.	20,700	899,001			
Watts Water Technologies, Inc. "A"	18,900	609,336			
					<b>1,508,337</b>
<b>Road &amp; Rail 2.0%</b>					
Heartland Express, Inc.	49,396	1,109,928			
<b>Transportation Infrastructure 2.4%</b>					
Overnite Corp.	35,400	1,318,296			
<b>Information Technology 28.5%</b>					
<b>Communications Equipment 5.8%</b>					
Avocent Corp.*	26,500	1,073,780			
CommScope, Inc.*	43,800	827,820			
Foundry Networks, Inc.*	93,700	1,233,092			
					<b>3,134,692</b>
<b>Internet Software &amp; Services 4.9%</b>					
Audible, Inc.*	28,900	752,845			
Openwave Systems, Inc.*	59,900	926,054			
WebSense, Inc.*	19,200	973,824			
					<b>2,652,723</b>
<b>IT Consulting &amp; Services 1.4%</b>					
CSG Systems International, Inc.*	41,300	772,310			
<b>Semiconductors &amp; Semiconductor Equipment 8.4%</b>					
AMIS Holdings, Inc.*	31,900	526,988			
Emulex Corp.*	63,200	1,064,288			
FormFactor, Inc.*	31,300	849,482			
Power Integrations, Inc.*	57,600	1,139,328			
Tessera Technologies, Inc.*	26,200	974,902			
					<b>4,554,988</b>
<b>Software 8.0%</b>					
Hyperion Solutions Corp.*	30,300	1,412,586			
Kronos, Inc.*	19,300	986,809			

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

	Shares	Value (\$)
Macromedia, Inc.*	30,500	949,160
THQ, Inc.*	43,200	991,008
		<b>4,339,563</b>
<b>Materials 1.0%</b>		
<b>Metals &amp; Mining</b>		
Foundation Coal Holdings, Inc.*	24,600	567,276
<b>Total Common Stocks</b> (Cost \$42,697,164)		<b>53,437,827</b>

#### Securities Lending Collateral 3.7%

Daily Assets Fund Institutional, 2.25% (d) (e)(Cost \$2,002,125)	2,002,125	2,002,125
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\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$45,793,968. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$10,710,583. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$11,198,959 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$488,376.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) All or a portion on these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$1,955,970, which is 3.6% of total net assets.
- (d) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (e) Represents collateral held in connection with securities lending.

Purchases and sales of investment securities (excluding short-term investments) for the year ended December 31, 2004, aggregated \$60,255,923 and \$63,922,829, respectively.

At December 31, 2004, the 21st Century Growth Portfolio had a net tax basis capital loss carryforward of approximately \$25,411,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 (\$12,036,000), December 31, 2010 (\$9,220,000) and December 31, 2011 (\$4,155,000), the respective expiration dates, whichever occurs first.

#### Cash Equivalents 1.9%

Scudder Cash Management QP Trust, 2.24% (b) (Cost \$1,064,599)	1,064,599	1,064,599
	<b>% of Net Assets</b>	<b>Value (\$)</b>
<b>Total Investment Portfolio</b> (Cost \$45,763,888) (a)	104.1	56,504,551
<b>Other Assets and Liabilities, Net</b>	(4.1)	(2,248,632)
<b>Net Assets</b>	100.0	54,255,919

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

# Financial Statements

## 21st Century Growth Portfolio

### Statement of Assets and Liabilities as of December 31, 2004

#### Assets

Investments:	
Investments in securities, at value — including \$1,955,970 of securities loaned (cost \$42,697,164)	\$ 53,437,827
Investment in Daily Assets Fund Institutional (cost \$2,002,125)*	2,002,125
Investment in Scudder Cash Management QP Trust (cost \$1,064,599)	1,064,599
<b>Total investments in securities, at value (cost \$45,763,888)</b>	<b>56,504,551</b>
Cash	10,000
Receivable for investments sold	25,876
Dividends receivable	988
Interest receivable	2,899
Receivable for Portfolio shares sold	12,942
Other assets	2,149
<b>Total assets</b>	<b>56,559,405</b>

#### Liabilities

Payable upon return of securities loaned	2,002,125
Payable for investments purchased	218,778
Payable for Portfolio shares redeemed	2,035
Accrued management fee	40,652
Other accrued expenses and payables	39,896
<b>Total liabilities</b>	<b>2,303,486</b>
<b>Net assets, at value</b>	<b>\$ 54,255,919</b>

#### Net Assets

Net assets consist of:	
Net unrealized appreciation (depreciation) on investments	10,740,663
Accumulated net realized gain (loss)	(25,440,630)
Paid-in capital	68,955,886
<b>Net assets, at value</b>	<b>\$ 54,255,919</b>

#### Net Asset Value

##### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$45,913,804 ÷ 8,651,769 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 5.31</b>
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##### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$8,342,115 ÷ 1,598,365 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 5.22</b>
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\* Represents collateral on securities loaned.

### Statement of Operations for the year ended December 31, 2004

#### Investment Income

Income:	
Dividends	\$ 63,088
Interest — Scudder Cash Management QP Trust	33,476
Securities lending income, including income from Daily Assets Fund Institutional	28,833
<b>Total Income</b>	<b>125,397</b>
Expenses:	
Management fee	469,123
Custodian fees	12,863
Accounting fees	66,207
Distribution service fees (Class B)	20,042
Record keeping fees (Class B)	10,714
Auditing	20,397
Legal	8,686
Trustees' fees and expenses	4,090
Reports to shareholders	6,452
Other	1,579
<b>Total expenses, before expense reductions</b>	<b>620,153</b>
<b>Expense reductions</b>	<b>(13,294)</b>
<b>Total expenses, after expense reductions</b>	<b>606,859</b>
<b>Net investment income (loss)</b>	<b>(481,462)</b>

#### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	1,667,420
Net unrealized appreciation (depreciation) during the period on investments	4,003,558
<b>Net gain (loss) on investment transactions</b>	<b>5,670,978</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 5,189,516</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ (481,462)	\$ (393,294)
Net realized gain (loss) on investment transactions	1,667,420	940,146
Net unrealized appreciation (depreciation) on investment transactions during the period	4,003,558	10,800,560
Net increase (decrease) in net assets resulting from operations	5,189,516	11,347,412
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	8,657,825	16,045,090
Cost of shares redeemed	(14,689,797)	(12,701,118)
Net increase (decrease) in net assets from Class A share transactions	(6,031,972)	3,343,972
<b>Class B</b>		
Proceeds from shares sold	4,534,980	5,228,477
Cost of shares redeemed	(2,898,118)	(130,839)
Net increase (decrease) in net assets from Class B share transactions	1,636,862	5,097,638
<b>Increase (decrease) in net assets</b>	794,406	19,789,022
Net assets at beginning of period	53,461,513	33,672,491
Net assets at end of period	\$ 54,255,919	\$ 53,461,513

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	9,918,991	9,153,467
Shares sold	1,746,788	3,849,909
Shares redeemed	(3,014,010)	(3,084,385)
Net increase (decrease) in Portfolio shares	(1,267,222)	765,524
Shares outstanding at end of period	8,651,769	9,918,991
<b>Class B</b>		
Shares outstanding at beginning of period	1,256,244	44,351
Shares sold	924,996	1,245,969
Shares redeemed	(582,875)	(34,076)
Net increase (decrease) in Portfolio shares	342,121	1,211,893
Shares outstanding at end of period	1,598,365	1,256,244

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

# Financial Highlights

## 21st Century Growth Portfolio

### Class A

Years Ended December 31,	2004	2003	2002	2001	2000
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 4.79	\$ 3.66	\$ 6.23	\$ 8.12	\$ 10.55
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>a</sup>	(.04)	(.04)	(.04)	(.04)	(.11)
Net realized and unrealized gain (loss) on investment transactions	.56	1.17	(2.53)	(1.85)	(2.20)
<b>Total from investment operations</b>	.52	1.13	(2.57)	(1.89)	(2.31)
<i>Less distributions from:</i>					
Net realized gains on investment transactions	—	—	—	—	(.12)
<b>Net asset value, end of period</b>	<b>\$ 5.31</b>	<b>\$ 4.79</b>	<b>\$ 3.66</b>	<b>\$ 6.23</b>	<b>\$ 8.12</b>
Total Return (%)	10.86 <sup>b</sup>	30.87	(41.25)	(23.28) <sup>b</sup>	(22.39) <sup>b</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	46	48	34	45	26
Ratio of expenses before expense reductions (%)	1.14	1.19	1.11	1.17 <sup>c</sup>	1.35
Ratio of expenses after expense reductions (%)	1.14	1.19	1.11	1.15 <sup>c</sup>	1.29
Ratio of net investment income (loss) (%)	(.91)	(.91)	(.88)	(.64)	(1.06)
Portfolio turnover rate (%)	117	113	72	103	109

### Class B

Years Ended December 31,	2004	2003	2002	2001	2000
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 4.72	\$ 3.62	\$ 6.15	\$ 8.04	\$ 10.51
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>a</sup>	(.05)	(.06)	(.05)	(.06)	(.13)
Net realized and unrealized gain (loss) on investment transactions	.55	1.16	(2.48)	(1.83)	(2.22)
<b>Total from investment operations</b>	.50	1.10	(2.53)	(1.89)	(2.35)
<i>Less distributions from:</i>					
Net realized gains on investment transactions	—	—	—	—	(.12)
<b>Net asset value, end of period</b>	<b>\$ 5.22</b>	<b>\$ 4.72</b>	<b>\$ 3.62</b>	<b>\$ 6.15</b>	<b>\$ 8.04</b>
Total Return (%)	10.59 <sup>b</sup>	30.39	(41.14)	(23.51) <sup>b</sup>	(22.79) <sup>b</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	8	6	— <sup>***</sup>	— <sup>***</sup>	— <sup>***</sup>
Ratio of expenses before expense reductions (%)	1.53	1.59	1.36	1.42 <sup>c</sup>	1.60
Ratio of expenses after expense reductions (%)	1.39	1.59	1.36	1.40 <sup>c</sup>	1.54
Ratio of net investment income (loss) (%)	(1.16)	(1.31)	(1.13)	(.89)	(1.31)
Portfolio turnover rate (%)	117	113	72	103	109

<sup>a</sup> Based on average shares outstanding during the period.

<sup>b</sup> Total return would have been lower had certain expenses not been reduced.

<sup>c</sup> The ratios of operating expenses excluding costs incurred in connection with a fund complex reorganization before and after expense reductions were 1.16% and 1.15%, and 1.41% and 1.40% for Class A and Class B, respectively.

<sup>\*\*\*</sup> Net assets less than one million



## Global Discovery Portfolio

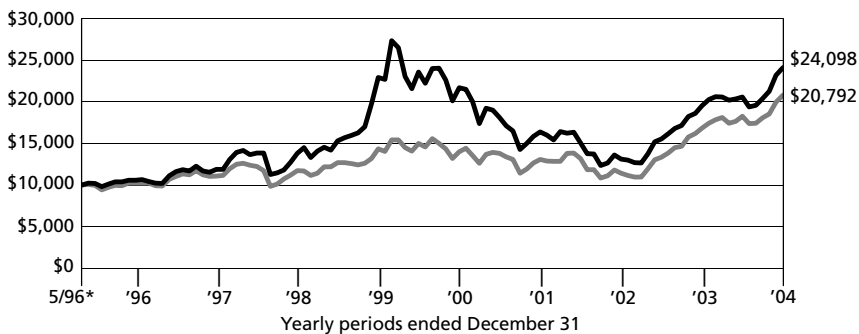
All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.

This portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuations, political and economic changes and market risks. Additionally, stocks of small-sized companies involve greater risk as they often have limited product lines, markets, or financial resources and may be sensitive to erratic and abrupt market movements more so than securities of larger, more-established companies. All of these factors may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

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 Class B for this Portfolio would be lower.

### Growth of an Assumed \$10,000 Investment

■ Global Discovery Portfolio — Class A\*  
 ■ S&P/Citigroup World Equity EMI



S&P/Citigroup World Equity Extended Market Index (formerly known as Salomon Smith Barney World Equity Extended Market Index) is an unmanaged small capitalization stock universe of 22 countries. Index returns assume the 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 (as of December 31, 2004)

Global Discovery Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$12,335	\$14,733	\$10,522	\$24,098
	Average annual total return	23.35%	13.79%	1.02%	10.68%
S&P/Citigroup World Equity EMI	Growth of \$10,000	\$12,353	\$15,937	\$14,517	\$20,792
	Average annual total return	23.53%	16.81%	7.74%	8.81%
Global Discovery Portfolio		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of \$10,000	\$12,312	\$14,640	\$10,391	\$22,801
	Average annual total return	23.12%	13.55%	.77%	11.35%
S&P/Citigroup World Equity EMI	Growth of \$10,000	\$12,353	\$15,937	\$14,517	\$21,063
	Average annual total return	23.53%	16.81%	7.74%	10.20%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 1996. Index returns begin April 30, 1996. Total returns for the Life of Portfolio period for Class A shares would have been lower if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced selling Class B shares on May 2, 1997. Index returns begin April 30, 1997.

# Information About Your Portfolio's Expenses

## Global Discovery Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Class B limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,172.60	\$ 1,172.90
Expenses Paid per \$1,000*	\$ 6.49	\$ 7.13
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,019.23	\$ 1,018.64
Expenses Paid per \$1,000*	\$ 6.03	\$ 6.62

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series I — Global Discovery Portfolio	1.18%	1.30%

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

## Global Discovery Portfolio

The portfolio delivered a robust absolute return of 23.35% (Class A shares, unadjusted for contract charges) in 2004, in line with the 23.53% return of the S&P/Citigroup World Equity Extended Market Index (EMI). The portfolio finished first among the twenty-eight comparable annuity portfolios in Lipper's Global Growth category.

We added value through our stock selection, especially within financials. Here, the portfolio's top performer was Anglo Irish Bank Corp. (5.36% of net assets as of December 31, 2004). Our selection was also favorable in the consumer discretionary group, where winners included Harman International (1.46%) and JC Decaux SA (1.38%). The primary detractor from performance was the portfolio's sector allocations, where we were hurt by an overweight in technology and underweights in energy, industrials and materials. Stock selection in health care was also a negative.

Financials represent the portfolio's largest sector weighting, although we have been actively trimming our largest positions in the group as they appreciate. We moved to an overweight in the consumer discretionary area, where recent additions include PF Chang's China Bistro Inc. (1.05%) and Advanced Auto Parts, Inc. (1.40%). We also increased the portfolio's weighting in industrials. Weightings in health care and technology were reduced during the year, and the portfolio remains underweight in materials and staples.

On a regional basis, Europe is proving to be the most fertile ground in which to find fast-growing, reasonably valued companies. The United States and the Pacific Rim are also home to a wealth of compelling opportunities, but we are less enthusiastic on valuations in the United States.

Joseph Axtell  
Terrence S. Gray  
*Portfolio Managers*

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuations, political and economic changes and market risks. Additionally, stocks of small-sized companies involve greater risk as they often have limited product lines, markets or financial resources and may be sensitive to erratic and abrupt market movements more so than securities of larger, more established companies. All of these factors may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The S&P/Citigroup World Equity Extended Market Index (Citigroup World Equity EMI), formerly Salomon Smith Barney World Equity Extended Market Index, is an unmanaged index of small-capitalization stocks within 22 countries around the globe. Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## Global Discovery Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks and Warrants	94%	99%
Cash Equivalents	6%	1%
	100%	100%

<b>Geographical Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Europe	41%	38%
United States	35%	39%
Japan	7%	7%
Pacific Basin	5%	5%
United Kingdom	5%	6%
Latin America	2%	2%
Australia	2%	2%
Canada	2%	—
Other	1%	1%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	25%	26%
Consumer Discretionary	21%	17%
Information Technology	16%	18%
Industrials	15%	12%
Health Care	12%	17%
Materials	3%	3%
Energy	3%	2%
Utilities	2%	2%
Consumer Staples	2%	1%
Telecommunication Services	1%	2%
	100%	100%

Asset allocation, geographical diversification and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 34. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month. Please call 1-800-778-1482.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Global Discovery Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 94.1%</b>					
<b>Australia 1.8%</b>					
Macquarie Bank Ltd.	80,811	2,945,670			
QBE Insurance Group Ltd.	127,194	1,530,508			
(Cost \$1,766,478)		<b>4,476,178</b>			
<b>Austria 0.4%</b>					
Wienerberger AG (Cost \$654,342)	20,600	<b>984,219</b>			
<b>Brazil 1.9%</b>					
Aracruz Celulose SA "B" (ADR)	78,300	2,951,910			
Empresa Brasileira de Aeronautica SA (Preferred) (ADR)	60,118	2,010,346			
(Cost \$3,312,870)		<b>4,962,256</b>			
<b>Canada 1.8%</b>					
ING Canada, Inc.*	59,500	1,455,532			
OPTI Canada, Inc.*	42,200	684,343			
ZENON Environmental, Inc.*	119,600	2,340,792			
(Cost \$4,036,265)		<b>4,480,667</b>			
<b>Denmark 1.4%</b>					
GN Store Nord A/S (GN Great Nordic)	211,900	2,284,511			
Group 4 Securicor PLC* (c)	445,260	1,204,164			
(Cost \$3,093,093)		<b>3,488,675</b>			
<b>France 4.6%</b>					
Autoroutes du Sud de la France	75,715	3,807,877			
Camaieu	22,075	2,196,398			
Flamel Technologies SA (ADR)* (c)	116,500	2,270,585			
JC Decaux SA*	121,075	3,534,988			
(Cost \$7,173,306)		<b>11,809,848</b>			
<b>Germany 9.9%</b>					
Deutsche Boerse AG (c)	85,403	5,140,200			
Fresenius Medical Care AG (c)	86,251	6,941,582			
Hypo Real Estate Holdings AG*	80,437	3,334,686			
Puma AG	17,625	4,846,456			
Rational AG	12,500	1,163,178			
Stada Arzneimittel AG (c)	96,096	2,598,001			
United Internet AG	50,955	1,381,748			
(Cost \$13,937,107)		<b>25,405,851</b>			
<b>Greece 5.6%</b>					
Alpha Bank AE	148,300	5,172,459			
Coca-Cola Hellenic Bottling Co. SA	98,100	2,400,163			
Germanos SA	64,100	1,899,389			
Greek Organization of Football Prognostics	106,200	2,936,126			
Titan Cement Co.	61,600	1,825,309			
(Cost \$8,480,265)		<b>14,233,446</b>			
<b>Hong Kong 2.5%</b>					
Kingboard Chemical Holdings Ltd.	1,078,400	2,289,243			
Midland Realty Holdings Ltd.	2,238,700	1,267,292			
Wing Hang Bank Ltd.	420,200	2,946,325			
(Cost \$4,543,898)		<b>6,502,860</b>			
<b>India 0.5%</b>					
Mahindra & Mahindra Ltd.	96,300	<b>1,206,242</b>			
(Cost \$1,071,275)					
<b>Ireland 8.2%</b>					
Anglo Irish Bank Corp., PLC	563,108	13,700,738			
ICON PLC (ADR)*	27,300	1,055,145			
Irish Continental Group PLC*	65,360	1,017,225			
Jurys Doyle Hotel Group PLC	231,150	3,870,828			
Ryanair Holdings PLC*	169,500	1,209,562			
(Cost \$5,076,298)		<b>20,853,498</b>			
<b>Japan 6.5%</b>					
AEON Credit Services Co., Ltd.	32,600	2,427,423			
AEON Mall Co., Ltd.	35,000	2,489,997			
JAFCO Co., Ltd.	21,500	1,460,330			
Matsui Securities Co., Ltd. (c)	46,800	1,630,487			
Nidec Corp. (c)	36,600	4,461,149			
Park24 Co., Ltd.* (c)	92,000	1,651,996			
Sumitomo Realty & Development Co., Ltd.	195,000	2,542,402			
(Cost \$11,924,750)		<b>16,663,784</b>			
<b>Korea 0.7%</b>					
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	71,700	1,066,634			
Korea Information Service, Inc.	35,000	666,055			
(Cost \$2,032,620)		<b>1,732,689</b>			
<b>Netherlands 3.7%</b>					
Chicago Bridge & Iron Co., NV (New York Shares) (ADR)	51,800	2,072,000			
IHC Caland NV	54,485	3,461,505			
Vedior NV	247,258	4,029,663			
(Cost \$6,474,444)		<b>9,563,168</b>			
<b>Norway 0.7%</b>					
Tandberg ASA (c) (Cost \$730,581)	147,200	<b>1,828,866</b>			
<b>Russia 1.0%</b>					
Mobile Telesystems (ADR) (Cost \$504,171)	17,600	<b>2,437,776</b>			
<b>Spain 1.5%</b>					
ACS, Actividades de Construcción y Servicios SA	102,300	2,336,061			
Amadeus Global Travel Distribution SA "A"	154,700	1,591,789			
(Cost \$2,346,013)		<b>3,927,850</b>			
<b>Sweden 1.0%</b>					
Eniro AB	197,200	2,017,877			
Micronic Laser Systems AB*	60,700	609,704			
(Cost \$1,891,931)		<b>2,627,581</b>			
<b>Switzerland 0.5%</b>					
Micronas Semiconductor Holdings AG (Foreign Registered)* (Cost \$1,028,882)	24,500	<b>1,201,192</b>			
<b>Taiwan 1.5%</b>					
Compal Electronics, Inc.	1,853,880	1,854,465			
Siliconware Precision Industries Co.*	2,547,600	2,106,252			
(Cost \$4,479,402)		<b>3,960,717</b>			
<b>Thailand 0.7%</b>					
Bangkok Bank PCL (Foreign Registered) (Cost \$1,494,304)	597,300	<b>1,752,695</b>			

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

	Shares	Value (\$)
<b>United Kingdom 4.2%</b>		
Aegis Group PLC	1,195,335	2,478,520
ARM Holdings PLC (c)	738,941	1,567,657
John Wood Group PLC	296,959	763,977
Misys PLC	291,370	1,170,548
Taylor Nelson Sofres PLC	574,840	2,494,218
Viridian Group PLC	168,979	2,368,288
(Cost \$11,563,963)		<b>10,843,208</b>
<b>United States 33.5%</b>		
Advance Auto Parts, Inc.*	82,000	3,581,760
Affiliated Computer Services, Inc. "A"*	32,200	1,938,118
Allegheny Energy, Inc.* (c)	160,300	3,159,513
Applied Micro Circuits Corp.*	231,700	975,457
Caremark Rx, Inc.*	144,700	5,705,521
Carter's, Inc.*	63,200	2,148,168
Celgene Corp.* (c)	82,600	2,191,378
Diebold, Inc.	39,700	2,212,481
EOG Resources, Inc.	31,500	2,247,840
Fiserv, Inc.*	92,600	3,721,594
Foundation Coal Holdings, Inc.	17,900	412,774
FTI Consulting, Inc.*	82,950	1,747,756
Gentex Corp.	49,500	1,832,490
GTECH Holdings Corp.	143,800	3,731,610
Harman International Industries, Inc.	41,900	5,321,300
Harris Interactive, Inc.*	144,600	1,142,340
Invitrogen Corp.*	37,400	2,510,662
Joy Global, Inc.	34,700	1,507,021
Kenneth Cole Productions, Inc. "A"	44,500	1,373,270
Lam Research Corp.*	45,700	1,321,187
LECG Corp.*	64,100	1,195,465
Legg Mason, Inc.	104,450	7,652,007
Mercury Interactive Corp.*	49,200	2,241,060
New York & Co., Inc.*	106,200	1,754,424
P.F. Chang's China Bistro, Inc.*	47,600	2,682,260

	Shares	Value (\$)
Par Pharmaceutical Cos., Inc.*	53,800	2,226,244
Rowan Companies, Inc.*	43,400	1,124,060
Spinnaker Exploration Co.*	28,800	1,010,016
Symbol Technologies, Inc.	119,093	2,060,309
The First Marblehead Corp.*	62,900	3,538,125
Thoratec Corp.*	114,800	1,196,216
THQ, Inc.*	120,300	2,759,682
Waters Corp.*	64,400	3,013,276
Zions Bancorp.	64,000	4,353,920
(Cost \$61,248,619)		<b>85,589,304</b>
<b>Total Common Stocks (Cost \$158,864,877)</b>		<b>240,532,570</b>

#### Warrants 0.0%

<b>Hong Kong</b>		
Kingboard Chemical Holdings Ltd.* (Cost \$849)	91,640	<b>48,928</b>

#### Securities Lending Collateral 11.8%

Daily Assets Fund Institutional, 2.25% (d) (e) (Cost \$30,054,142)	30,054,142	<b>30,054,142</b>
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#### Cash Equivalents 6.2%

Scudder Cash Management QP Trust, 2.24% (b) (Cost \$15,964,746)	15,964,746	<b>15,964,746</b>
	<b>% of Net Assets</b>	<b>Value (\$)</b>
<b>Total Investment Portfolio</b> (Cost \$204,884,614) (a)	112.1	<b>286,600,386</b>
<b>Other Assets and Liabilities, Net</b>	(12.1)	<b>(30,914,007)</b>
<b>Net Assets</b>	100.0	<b>255,686,379</b>

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$206,593,228. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$80,007,158. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$86,671,256 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$6,664,098.

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

(c) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$28,669,428, which is 11.2% of total net assets.

(d) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.

(e) Represents collateral held in connection with securities lending.

ADR: American Depositary Receipt

Purchases and sales of investment securities (excluding short-term investments) for the year ended December 31, 2004, aggregated \$49,763,481 and \$50,081,920, respectively.

At December 31, 2004, the Global Discovery Portfolio had a net tax basis capital loss carryforward of approximately \$42,800,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 (\$11,900,000), December 31, 2010 (\$25,700,000) and December 31, 2011 (\$5,200,000), the respective expiration dates, whichever occurs first.

# Financial Statements

## Global Discovery Portfolio

### Statement of Assets and Liabilities as of December 31, 2004

#### Assets

Investments:	
Investments in securities, at value — including \$28,669,428 of securities loaned (cost \$158,865,726)	\$ 240,581,498
Investment in Daily Assets Fund Institutional (cost \$30,054,142)*	30,054,142
Investment in Scudder Cash Management QP Trust (cost \$15,964,746)	15,964,746
<b>Total investment in securities, at value (cost \$204,884,614)</b>	<b>286,600,386</b>
Foreign currency, at value (cost \$102,603)	109,715
Receivable for investments sold	91,087
Dividends receivable	196,240
Interest receivable	36,393
Receivable for Portfolio shares sold	21,490
Foreign taxes recoverable	26,014
Other assets	6,703
<b>Total assets</b>	<b>287,088,028</b>

#### Liabilities

Payable upon return of securities loaned	30,054,142
Payable for Portfolio shares redeemed	1,027,603
Accrued management fee	205,410
Other accrued expenses and payables	114,494
<b>Total liabilities</b>	<b>31,401,649</b>
<b>Net assets, at value</b>	<b>\$ 255,686,379</b>

#### Net Assets

Net assets consist of:	
Undistributed net investment income	111,958
Net unrealized appreciation (depreciation) on:	
Investments	81,715,772
Foreign currency related transactions	10,545
Accumulated net realized gain (loss)	(43,143,482)
Paid-in capital	216,991,586
<b>Net assets, at value</b>	<b>\$ 255,686,379</b>

#### Class A

**Net Asset Value**, offering and redemption price per share (\$232,068,523 ÷ 18,170,922 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) **\$ 12.77**

#### Class B

**Net Asset Value**, offering and redemption price per share (\$23,617,856 ÷ 1,871,933 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) **\$ 12.62**

\* Represents collateral on securities loaned.

### Statement of Operations for the year ended December 31, 2004

#### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$202,585)	\$ 2,472,313
Interest — Scudder Cash Management QP Trust	114,567
Securities lending income, including income from Daily Assets Fund Institutional	118,790
<b>Total Income</b>	<b>2,705,670</b>
Expenses:	
Management fee	2,073,565
Custodian fees	162,711
Accounting fees	180,569
Distribution service fees (Class B)	45,532
Record keeping fee (Class B)	14,005
Auditing	41,094
Legal	10,406
Trustees' fees and expenses	8,209
Reports to shareholders	20,338
Other	14,336
<b>Total expenses, before expense reductions</b>	<b>2,570,765</b>
Expense reductions	(25,216)
<b>Total expenses, after expense reductions</b>	<b>2,545,549</b>
<b>Net investment income (loss)</b>	<b>160,121</b>

#### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	13,187,068
Foreign currency related transactions	(4,997)
	13,182,071
Net unrealized appreciation (depreciation) during the period on:	
Investments	33,488,353
Foreign currency related transactions	(272)
	33,488,081
<b>Net gain (loss) on investment transactions</b>	<b>46,670,152</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 46,830,273</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 160,121	\$ 406,219
Net realized gain (loss) on investment transactions	13,182,071	(3,501,571)
Net unrealized appreciation (depreciation) on investment transactions during the period	33,488,081	65,108,493
Net increase (decrease) in net assets resulting from operations	46,830,273	62,013,141
Distributions to shareholders from:		
Net investment income:		
Class A	(501,729)	(133,861)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	33,267,780	36,495,865
Reinvestment of distributions	501,729	133,861
Cost of shares redeemed	(26,576,758)	(33,146,972)
Net increase (decrease) in net assets from Class A share transactions	7,192,751	3,482,754
<b>Class B</b>		
Proceeds from shares sold	9,197,327	6,497,655
Cost of shares redeemed	(3,074,994)	(1,234,627)
Net increase (decrease) in net assets from Class B share transactions	6,122,333	5,263,028
<b>Increase (decrease) in net assets</b>	<b>59,643,628</b>	<b>70,625,062</b>
Net assets at beginning of period	196,042,751	125,417,689
Net assets at end of period (including undistributed net investment income of \$111,958 and \$396,318, respectively)	<b>\$ 255,686,379</b>	<b>\$ 196,042,715</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	17,610,512	17,358,587
Shares sold	2,966,838	4,275,233
Shares issued to shareholders in reinvestment of distributions	46,673	18,413
Shares redeemed	(2,453,101)	(4,041,721)
Net increase (decrease) in Portfolio shares	560,410	251,925
Shares outstanding at end of period	<b>18,170,922</b>	<b>17,610,512</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,289,405	645,610
Shares sold	862,506	796,263
Shares redeemed	(279,978)	(152,468)
Net increase (decrease) in Portfolio shares	582,528	643,795
Shares outstanding at end of period	<b>1,871,933</b>	<b>1,289,405</b>

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



# Financial Highlights

## Global Discovery Portfolio

### Class A

Years Ended December 31,	2004	2003	2002	2001	2000
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 10.38	\$ 6.97	\$ 8.70	\$ 11.76	\$ 13.18
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>a</sup>	.01	.02	(.00) <sup>b</sup>	(.00) <sup>b</sup>	(.03)
Net realized and unrealized gain (loss) on investment transactions	2.41	3.40	(1.73)	(2.87)	(.62)
<b>Total from investment operations</b>	<b>2.42</b>	<b>3.42</b>	<b>(1.73)</b>	<b>(2.87)</b>	<b>(.65)</b>
<i>Less distributions from:</i>					
Net investment income	(.03)	(.01)	—	—	(.11)
Net realized gains on investment transactions	—	—	—	(.19)	(.66)
<b>Total distributions</b>	<b>(.03)</b>	<b>(.01)</b>	<b>—</b>	<b>(.19)</b>	<b>(.77)</b>
<b>Net asset value, end of period</b>	<b>\$ 12.77</b>	<b>\$ 10.38</b>	<b>\$ 6.97</b>	<b>\$ 8.70</b>	<b>\$ 11.76</b>
Total Return (%)	23.35	49.09	(19.89)	(24.59)	(5.29)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	232	183	121	150	159
Ratio of expenses before expense reductions (%)	1.18	1.18	1.19	1.23 <sup>c</sup>	1.28
Ratio of expenses after expense reductions (%)	1.18	1.18	1.19	1.22 <sup>c</sup>	1.28
Ratio of net investment income (loss) (%)	.09	.28	(.03)	.00 <sup>d</sup>	(.25)
Portfolio turnover rate (%)	24	41	47	56	66

### Class B

Years Ended December 31,	2004	2003	2002	2001	2000
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 10.25	\$ 6.89	\$ 8.62	\$ 11.69	\$ 13.11
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>a</sup>	(.01)	.00 <sup>b</sup>	(.02)	(.02)	(.07)
Net realized and unrealized gain (loss) on investment transactions	2.38	3.36	(1.71)	(2.86)	(.61)
<b>Total from investment operations</b>	<b>2.37</b>	<b>3.36</b>	<b>(1.73)</b>	<b>(2.88)</b>	<b>(.68)</b>
<i>Less distributions from:</i>					
Net investment income	—	—	—	—	(.08)
Net realized gains on investment transactions	—	—	—	(.19)	(.66)
<b>Total distributions</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(.19)</b>	<b>(.74)</b>
<b>Net asset value, end of period</b>	<b>\$ 12.62</b>	<b>\$ 10.25</b>	<b>\$ 6.89</b>	<b>\$ 8.62</b>	<b>\$ 11.69</b>
Total Return (%)	23.12 <sup>e</sup>	48.77	(20.07)	(24.96)	(5.42)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	24	13	4	7	11
Ratio of expenses before expense reductions (%)	1.52	1.43	1.44	1.48 <sup>c</sup>	1.53
Ratio of expenses after expense reductions (%)	1.39	1.43	1.44	1.47 <sup>c</sup>	1.53
Ratio of net investment income (loss) (%)	(.12)	.03	(.28)	(.25)	(.52)
Portfolio turnover rate (%)	24	41	47	56	66

<sup>a</sup> Based on average shares outstanding during the period.

<sup>b</sup> Less than \$.005 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 1.22% and 1.22%, and 1.47% and 1.47% for Class A and Class B, respectively.

<sup>d</sup> Less than .005%

<sup>e</sup> Total return would have been less had certain expenses not been reduced.

## International Portfolio

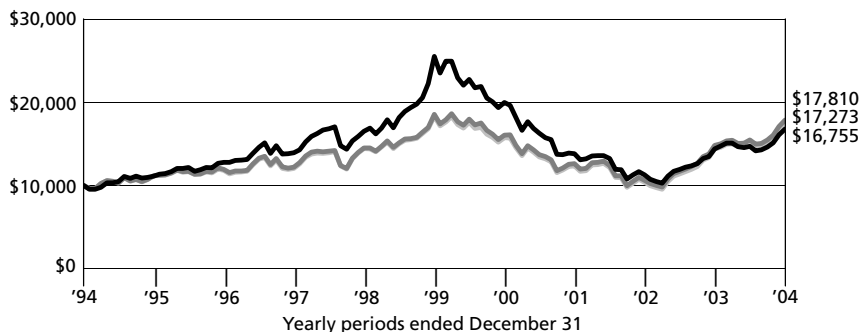
All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

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 Class B for this Portfolio would be lower.

### Growth of an Assumed \$10,000 Investment

- International Portfolio — Class A
- MSCI EAFE® + Canada Index
- MSCI EAFE® Index



The Morgan Stanley Capital International (MSCI) Europe, Australasia, the Far East (EAFE®) + Canada Index is an unmanaged capitalization-weighted measure of stock markets in Europe, Australia, the Far East and Canada. Effective on July 12, 2004, MSCI EAFE Index replaced the MSCI EAFE + Canada Index as the portfolio's benchmark index because the advisor believes it is more appropriate to measure the portfolio's performance against the MSCI EAFE Index as it more accurately reflects the portfolio's investment strategy. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates. Index returns assume the 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 (as of December 31, 2004)

International Portfolio		1-Year	3-Year	5-Year	10-Year
Class A	Growth of \$10,000	\$11,653	\$12,153	\$6,579	\$16,755
	Average annual total return	16.53%	6.72%	-8.03%	5.30%
MSCI EAFE® + Canada Index	Growth of \$10,000	\$12,038	\$14,132	\$9,623	\$17,810
	Average annual total return	20.38%	12.22%	-.77%	5.94%
MSCI EAFE® Index	Growth of \$10,000	\$12,025	\$14,008	\$9,445	\$17,273
	Average annual total return	20.25%	11.89%	-1.13%	5.62%

International Portfolio		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of \$10,000	\$11,624	\$12,063	\$6,519	\$12,160
	Average annual total return	16.24%	6.45%	-8.20%	2.59%
MSCI EAFE® + Canada Index	Growth of \$10,000	\$12,038	\$14,132	\$9,623	\$14,161
	Average annual total return	20.38%	12.22%	-.77%	4.70%
MSCI EAFE® Index	Growth of \$10,000	\$12,025	\$14,008	\$9,445	\$13,896
	Average annual total return	20.25%	11.89%	-1.13%	4.43%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced selling Class B shares on May 8, 1997. Index returns begin May 31, 1997.

# Information About Your Portfolio's Expenses

## International Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Class B limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,140.50	\$ 1,139.40
Expenses Paid per \$1,000*	\$ 5.73	\$ 7.37
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,019.85	\$ 1,018.31
Expenses Paid per \$1,000*	\$ 5.40	\$ 6.96

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series I — International Portfolio	1.06%	1.37%

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

## International Portfolio

International equities delivered robust performance during 2004, as the continued strength in corporate earnings and worldwide economic growth provided a positive underpinning for the markets. Dollar-based investors gained an additional boost to returns from the rising value of foreign currencies in relation to the change to the US dollar. The portfolio produced a positive absolute return of 16.53% (Class A shares, unadjusted for contract charges), but lagged the 20.25% return of the MSCI EAFE Index.

Performance was helped by favorable stock selection within technology, where the stocks in the portfolio provided a return approximately three times that of the tech stocks in the benchmark. Returns were also helped considerably by the strong performance of our holdings in the materials sector, as stocks such as BHP Billiton PLC (1.7% of assets as of December 31), Companhia Vale do Rio Doce SA (1.3%), POSCO (0.5%) and Nippon Steel Corp. (1.4%) benefited from rising demand from China. Performance was hurt by our stock selection in the consumer discretionary area, where key detractors were Japanese stocks — such as Sharp Corp. (0.6%) and Nissan Motor Co., Ltd. (1.4%) — whose export revenues were hurt by the strength of the yen. Selection within health care also detracted, particularly a position in AstraZeneca PLC (1.2%).

We continue to emphasize companies whose pricing power will enable them to pass on rising input costs, which in turn will allow them to maintain their profit margins amid an environment of slow to moderate demand growth. In addition, we continue to look for opportunities to invest in companies positioned to capitalize on the rapid growth of Asian consumer spending.

Alex Tedder  
*Lead Manager*

Matthias Knerr  
Sangita Uberoi  
*Managers*

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

## Risk Considerations

This portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*Morgan Stanley Capital International (MSCI) Europe, Australia, Far East (EAFE) Index is an unmanaged capitalization-weighted measure of stock markets in Europe, Australia and the Far East. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates.*

*Effective July 12, 2004, the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index replaced the MSCI EAFE & Canada Index as the portfolio's benchmark index because the advisor believes it is more appropriate to measure the portfolio's performance against the MSCI EAFE Index as it more accurately reflects the portfolio's investment strategy. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates. For the year ended December 31, 2004, the MSCI EAFE & Canada Index returned 20.38%.*

*Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## International Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	100%	98%
Preferred Stocks	—	1%
Cash Equivalents	—	1%
	100%	100%

<b>Geographical Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Europe (excluding United Kingdom)	47%	49%
Japan	23%	19%
United Kingdom	21%	22%
Pacific Basin	6%	6%
Latin America	2%	2%
Australia	1%	1%
Africa	—	1%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	30%	28%
Consumer Discretionary	13%	11%
Energy	10%	8%
Health Care	9%	9%
Telecommunication Services	8%	10%
Information Technology	7%	9%
Industrials	7%	10%
Materials	6%	7%
Utilities	5%	3%
Consumer Staples	5%	5%
	100%	100%

*Asset allocation, geographical diversification and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 43. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month. Please call 1-800-778-1482.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## International Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 98.4%</b>					
<b>Australia 1.4%</b>					
Australia & New Zealand Banking Group Ltd. (Cost \$6,304,217)	484,092	7,813,487			
<b>Austria 1.1%</b>					
Wienerberger AG (Cost \$4,306,475)	129,371	6,181,039			
<b>Brazil 1.7%</b>					
Companhia Vale do Rio Doce SA (ADR)	245,006	7,107,624			
Petroleo Brasileiro SA (ADR)	70,000	2,784,600			
(Cost \$4,918,652)		<b>9,892,224</b>			
<b>Finland 0.9%</b>					
Nokia Oyj	187,357	2,959,207			
Nokia Oyj (ADR)	128,290	2,010,304			
(Cost \$5,651,581)		<b>4,969,511</b>			
<b>France 8.1%</b>					
BNP Paribas SA	125,370	9,082,807			
France Telecom SA	246,100	8,148,696			
PSA Peugeot Citroen	51,230	3,251,925			
Sanofi-Aventis	104,730	8,370,428			
Total SA (c)	79,513	17,368,138			
(Cost \$32,498,394)		<b>46,221,994</b>			
<b>Germany 6.6%</b>					
Adidas-Salomon AG	37,200	6,004,485			
E.ON AG (c)	145,706	13,281,289			
Hypo Real Estate Holdings AG*	179,000	7,420,824			
Metro AG (c)	116,850	6,430,959			
Siemens AG	51,470	4,364,141			
(Cost \$27,300,444)		<b>37,501,698</b>			
<b>Greece 2.0%</b>					
Alpha Bank AE	185,522	6,470,701			
Hellenic Telecommunications Organization SA	280,520	5,040,743			
(Cost \$7,749,574)		<b>11,511,444</b>			
<b>Hong Kong 1.9%</b>					
Esprit Holdings Ltd.	1,271,748	7,690,012			
Yue Yuen Industrial (Holdings) Ltd.	1,020,000	2,801,729			
(Cost \$8,064,895)		<b>10,491,741</b>			
<b>Hungary 0.9%</b>					
OTP Bank Rt (GDR)	86,457	5,273,877			
(Cost \$1,828,875)					
<b>India 1.4%</b>					
ICICI Ltd.	454,102	3,803,246			
Reliance Industries Ltd.	345,000	4,236,508			
(Cost \$7,289,137)		<b>8,039,754</b>			
<b>Indonesia 0.7%</b>					
PT Telekomunikasi Indonesia (ADR)	178,000	3,741,560			
(Cost \$3,985,984)					
<b>Italy 5.1%</b>					
Banca Intesa SpA	1,567,400	7,541,928			
Enel SpA	348,738	3,427,179			
Eni SpA	465,920	11,665,416			
Terna SpA (c)	2,290,050	6,567,902			
(Cost \$20,471,018)		<b>29,202,425</b>			
<b>Japan 22.6%</b>					
Aiful Corp.	38,656	4,251,519			
Canon, Inc.	207,700	11,208,949			
Credit Saison Co., Ltd.	85,000	3,094,076			
Dai Nippon Printing Co., Ltd.	186,390	2,990,389			
Daito Trust Construction Co., Ltd.	67,700	3,217,517			
FANUC Ltd.	69,000	4,511,564			
Hoya Corp.	58,500	6,605,299			
Kirin Brewery Co., Ltd.	469,667	4,624,710			
Mitsubishi Corp.	877,000	11,331,590			
Mitsubishi Tokyo Financial Group, Inc.	636	6,454,963			
Mitsui Fudosan Co., Ltd.	473,000	5,746,902			
Mizuho Financial Group, Inc.	2,172	10,937,367			
Nippon Mining Holdings, Inc.	552,000	2,596,506			
Nippon Steel Corp. (c)	3,247,629	7,955,059			
Nissan Motor Co., Ltd.	694,157	7,546,510			
Sega Sammy Holdings, Inc. (c)	82,200	4,516,307			
Sharp Corp.	212,269	3,465,659			
Sony Corp.	131,016	5,063,173			
Toyota Motor Corp.	389,500	15,850,639			
Yamanouchi Pharmaceutical Co., Ltd. (c)	168,141	6,547,112			
(Cost \$100,247,019)		<b>128,515,810</b>			
<b>Korea 1.3%</b>					
POSCO	15,260	2,756,588			
Samsung Electronics Co., Ltd.	10,127	4,407,084			
(Cost \$3,400,853)		<b>7,163,672</b>			
<b>Netherlands 3.2%</b>					
ING Groep NV	435,928	13,189,829			
Koninklijke (Royal) Philips Electronics NV	189,230	5,018,183			
(Cost \$13,202,393)		<b>18,208,012</b>			
<b>Norway 1.7%</b>					
DNB NOR ASA	362,675	3,577,858			
Statoil ASA	374,188	5,869,228			
(Cost \$7,576,649)		<b>9,447,086</b>			
<b>Russia 0.7%</b>					
Gazprom "S" (ADR)	105,800	3,755,900			
(Cost \$3,826,258)					
<b>Singapore 0.8%</b>					
DBS Group Holdings Ltd.	465,000	4,586,192			
(Cost \$4,531,753)					
<b>Spain 2.1%</b>					
Telefonica SA (Cost \$6,661,728)	625,100	11,776,384			

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

	Shares	Value (\$)		Shares	Value (\$)
<b>Sweden 1.2%</b>			HSBC Holdings PLC	872,587	14,725,722
Telefonaktiebolaget LM Ericsson "B" (c)* (Cost \$2,489,579)	2,129,537	6,793,599	Imperial Tobacco Group PLC	297,000	8,136,908
<b>Switzerland 10.7%</b>			National Grid Transco PLC	639,270	6,087,584
Credit Suisse Group	162,200	6,818,363	Prudential PLC	744,976	6,479,171
Nestle SA (Registered)	56,379	14,750,464	Royal Bank of Scotland Group PLC	457,319	15,382,692
Novartis AG (Registered)	152,475	7,683,421	Shell Transport & Trading Co., PLC	1,712,976	14,602,030
Roche Holding AG	96,990	11,165,237	Smith & Nephew PLC	457,137	4,677,918
UBS AG (Registered)	173,897	14,581,900	Vodafone Group PLC	5,909,062	16,024,556
Zurich Financial Services AG* (Cost \$43,653,253)	35,700	5,952,616	WPP Group PLC	459,800	5,058,277
		<b>60,952,001</b>	(Cost \$90,717,681)		<b>118,928,261</b>
<b>Taiwan 0.8%</b>			<b>Total Common Stocks (Cost \$413,418,577)</b>		<b>558,780,963</b>
Hon Hai Precision Industry Co., Ltd. (Cost \$3,876,796)	984,000	4,564,468			
<b>Thailand 0.6%</b>					
Bangkok Bank PCL (Foreign Registered) (Cost \$2,865,369)	1,107,165	3,248,824			
<b>United Kingdom 20.9%</b>					
AstraZeneca PLC	188,576	6,839,075			
BAA PLC	434,555	4,872,329			
BHP Billiton PLC	840,230	9,848,336			
GlaxoSmithKline PLC	263,996	6,193,663			

#### Securities Lending Collateral 9.2%

Daily Assets Fund Institutional 2.25% (b)(d) (Cost \$52,676,654)	52,676,654	52,676,654
	<b>% of Net Assets</b>	<b>Value (\$)</b>
<b>Total Investment Portfolio</b> (Cost \$466,095,231) (a)	107.6	611,457,617
<b>Other Assets and Liabilities, Net</b>	(7.6)	(43,437,058)
<b>Net Assets</b>	100.0	568,020,559

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$471,674,698. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$139,782,919. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$141,696,625 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$1,913,706.
- (b) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (c) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$50,136,838, which is 8.8% of total net assets.
- (d) Represents collateral held in connection with securities lending.

ADR: American Depositary Receipts

GDR: Global Depositary Receipts

Purchases and sales of investment securities (excluding short-term investments) for the years ended December 31, 2004 aggregated \$368,418,412 and \$381,395,485, respectively.

At December 31, 2004, the International Portfolio had a net tax basis capital loss carryforward of approximately \$221,457,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 (\$102,131,000), December 31, 2010 (\$105,374,000) and December 31, 2011 (\$13,952,000), the respective expiration dates, whichever occurs first.

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

# Financial Statements

## International Portfolio

### Statement of Assets and Liabilities as of December 31, 2004

#### Assets

Investments:	
Investments in securities, at value — including \$50,136,838 of securities loaned (cost \$413,418,577)	\$ 558,780,963
Investment in Daily Assets Fund Institutional (cost \$52,676,654)*	52,676,654
<b>Total investments in securities, at value (cost \$466,095,231)</b>	<b>611,457,617</b>
Cash	1,210,298
Foreign currency, at value (cost \$8,293,061)	8,446,568
Receivable for investments sold	4,697,386
Dividends receivable	814,462
Interest receivable	19,369
Receivable for Portfolio shares sold	148,257
Foreign taxes recoverable	320,265
Other assets	16,435
<b>Total assets</b>	<b>627,130,657</b>

#### Liabilities

Payable upon return of securities loaned	52,676,654
Payable for investments purchased	1,134,458
Payable for Portfolio shares redeemed	4,698,481
Accrued management fee	401,748
Other accrued expenses and payables	198,757
<b>Total liabilities</b>	<b>59,110,098</b>
<b>Net assets, at value</b>	<b>\$ 568,020,559</b>

#### Net Assets

Net assets consist of:	
Undistributed net investment income	7,025,372
Net unrealized appreciation (depreciation) on:	
Investments	145,362,386
Foreign currency related transactions	232,550
Accumulated net realized gain (loss)	(224,951,671)
Paid-in capital	640,351,922
<b>Net assets, at value</b>	<b>\$ 568,020,559</b>

#### Net Asset Value

##### Class A

**Net Asset Value**, offering and redemption price per share (\$532,944,733 ÷ 56,078,328 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) **\$ 9.50**

##### Class B

**Net Asset Value**, offering and redemption price per share (\$35,075,826 ÷ 3,699,485 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) **\$ 9.48**

\* Represents collateral on securities loaned.

### Statement of Operations for the year ended December 31, 2004

#### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$1,225,430)	\$ 10,321,390
Interest	147,796
Interest — Scudder Cash Management QP Trust	21,092
Securities lending income, including income from Daily Assets Fund Institutional	325,201
<b>Total Income</b>	<b>10,815,479</b>
Expenses:	
Management fee	4,489,153
Custodian fees	378,957
Accounting fees	372,264
Distribution service fees (Class B)	70,912
Record keeping fees (Class B)	25,287
Auditing	43,570
Legal	10,558
Trustees' fees and expenses	14,866
Reports to shareholders	34,648
Other	43,680
<b>Total expenses, before expense reductions</b>	<b>5,483,895</b>
Expense reductions	(13,797)
<b>Total expenses, after expense reductions</b>	<b>5,470,098</b>
<b>Net investment income (loss)</b>	<b>5,345,381</b>

#### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments (net of foreign taxes of \$99,642)	32,348,305
Foreign currency related transactions	2,033,411
Net increase from payments by affiliates and net losses realized on the disposal of investments in violation of restrictions	—
	<b>34,381,716</b>
Net unrealized appreciation (depreciation) during the period on:	
Investments	41,879,708
Foreign currency related transactions	(5,542)
	<b>41,874,166</b>
<b>Net gain (loss) on investment transactions</b>	<b>76,255,882</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 81,601,263</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 5,345,381	\$ 5,716,911
Net realized gain (loss) on investment transactions	34,381,716	(4,157,550)
Net unrealized appreciation (depreciation) on investment transactions during the period	41,874,166	111,190,364
Net increase (decrease) in net assets resulting from operations	81,601,263	112,749,725
Distributions to shareholders from:		
Net investment income:		
Class A	(6,363,976)	(3,294,533)
Class B	(312,686)	(65,246)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	57,653,358	144,783,011
Reinvestment of distributions	6,363,976	3,294,533
Cost of shares redeemed	(86,826,684)	(179,951,683)
Net increase (decrease) in net assets from Class A share transactions	(22,809,350)	(31,874,139)
<b>Class B</b>		
Proceeds from shares sold	19,706,198	13,693,862
Reinvestment of distributions	312,686	65,246
Cost of shares redeemed	(13,535,303)	(1,831,157)
Net increase (decrease) in net assets from Class B share transactions	6,483,581	11,927,951
<b>Increase (decrease) in net assets</b>	<b>58,598,832</b>	<b>89,443,758</b>
Net assets at beginning of period	509,421,727	419,977,969
Net assets at end of period (including undistributed net investment income of \$7,025,372 and \$6,422,885, respectively)	<b>\$ 568,020,559</b>	<b>\$ 509,421,727</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	58,747,179	63,268,457
Shares sold	6,770,517	21,527,511
Shares issued to shareholders in reinvestment of distributions	763,983	522,046
Shares redeemed	(10,203,351)	(26,570,835)
Net increase (decrease) in Portfolio shares	(2,668,851)	(4,521,278)
Shares outstanding at end of period	<b>56,078,328</b>	<b>58,747,179</b>
<b>Class B</b>		
Shares outstanding at beginning of period	2,910,661	1,173,516
Shares sold	2,359,763	1,976,109
Shares issued to shareholders in reinvestment of distributions	37,537	10,356
Shares redeemed	(1,608,476)	(249,320)
Net increase (decrease) in Portfolio shares	788,824	1,737,145
Shares outstanding at end of period	<b>3,699,485</b>	<b>2,910,661</b>

# Financial Highlights

## International Portfolio

### Class A

Years Ended December 31,	2004	2003	2002	2001	2000
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.26	\$ 6.52	\$ 8.05	\$ 14.26	\$ 20.34
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.09	.09	.05	.06	.08
Net realized and unrealized gain (loss) on investment transactions	1.26	1.70	(1.52)	(3.97)	(4.24)
<b>Total from investment operations</b>	<b>1.35</b>	<b>1.79</b>	<b>(1.47)</b>	<b>(3.91)</b>	<b>(4.16)</b>
<i>Less distributions from:</i>					
Net investment income	(.11)	(.05)	(.06)	(.05)	(.09)
Net realized gains on investment transactions	—	—	—	(2.25)	(1.83)
<b>Total distributions</b>	<b>(.11)</b>	<b>(.05)</b>	<b>(.06)</b>	<b>(2.30)</b>	<b>(1.92)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.50</b>	<b>\$ 8.26</b>	<b>\$ 6.52</b>	<b>\$ 8.05</b>	<b>\$ 14.26</b>
Total Return (%)	16.53	27.75	(18.37)	(30.86)	(21.70)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	533	485	412	513	720
Ratio of expenses before expense reductions (%)	1.04	1.05	1.03	1.01 <sup>b</sup>	.96
Ratio of expenses after expense reductions (%)	1.04	1.05	1.03	1.00 <sup>b</sup>	.96
Ratio of net investment income (loss) (%)	1.05	1.32	.73	.64	.48
Portfolio turnover rate (%)	73	119	123	105	79

### Class B

Years Ended December 31,	2004	2003	2002	2001	2000
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.24	\$ 6.50	\$ 8.03	\$ 14.19	\$ 20.24
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>a</sup>	.06	.07	.04	.05	.04
Net realized and unrealized gain (loss) on investment transactions	1.27	1.71	(1.53)	(3.94)	(4.22)
<b>Total from investment operations</b>	<b>1.33</b>	<b>1.78</b>	<b>(1.49)</b>	<b>(3.89)</b>	<b>(4.18)</b>
<i>Less distributions from:</i>					
Net investment income	(.09)	(.04)	(.04)	(.02)	(.04)
Net realized gains on investment transactions	—	—	—	(2.25)	(1.83)
<b>Total distributions</b>	<b>(.09)</b>	<b>(.04)</b>	<b>(.04)</b>	<b>(2.27)</b>	<b>(1.87)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.48</b>	<b>\$ 8.24</b>	<b>\$ 6.50</b>	<b>\$ 8.03</b>	<b>\$ 14.19</b>
Total Return (%)	16.24 <sup>c</sup>	27.52	(18.62)	(30.81)	(21.89)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	35	24	8	3	.77
Ratio of expenses before expense reductions (%)	1.38	1.32	1.28	1.26 <sup>b</sup>	1.21
Ratio of expenses after expense reductions (%)	1.35	1.32	1.28	1.25 <sup>b</sup>	1.21
Ratio of net investment income (loss) (%)	.74	1.05	.48	.39	.23
Portfolio turnover rate (%)	73	119	123	105	79

<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 1.00% and 1.00%, and 1.25% and 1.25% for Class A and Class B, respectively.

<sup>c</sup> Total return would have been lower had certain expenses not been reduced.

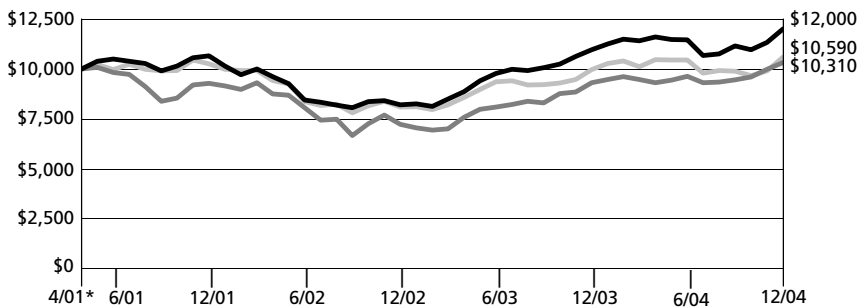
## Health Sciences Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.

This portfolio is subject to stock market risk. The portfolio may focus its investments on certain industry sectors, thereby increasing its vulnerability to any single industry or regulatory development. All of these factors may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment

- Health Sciences Portfolio — Class A\*
- S&P 500 Index
- Goldman Sachs Healthcare Index



The Standard & Poor's 500 (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 the 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 (as of December 31, 2004)

Health Sciences Portfolio		1-Year	3-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$10,959	\$11,268	\$12,000
	Average annual total return	9.59%	4.06%	5.10%
S&P 500 Index	Growth of \$10,000	\$11,088	\$11,115	\$10,310
	Average annual total return	10.88%	3.59%	.84%
Goldman Sachs Healthcare Index	Growth of \$10,000	\$10,627	\$10,339	\$10,590
	Average annual total return	6.27%	1.12%	1.57%

Health Sciences Portfolio		1-Year	Life of Class**
Class B	Growth of \$10,000	\$10,917	\$14,722
	Average annual total return	9.17%	16.71%
S&P 500 Index	Growth of \$10,000	\$11,088	\$12,800
	Average annual total return	10.88%	10.38%
Goldman Sachs Healthcare Index	Growth of \$10,000	\$10,627	\$12,678
	Average annual total return	6.27%	9.91%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 2001. Index returns begin April 30, 2001. Total returns would have been lower for the Life of Portfolio period for Class A shares if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced selling Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## Health Sciences Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,048.00	\$ 1,045.70
Expenses Paid per \$1,000*	\$ 4.53	\$ 6.47
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,020.78	\$ 1,018.88
Expenses Paid per \$1,000*	\$ 4.47	\$ 6.39

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series I — Health Sciences Portfolio	.88%	1.26%

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

## Health Sciences Portfolio

The health care sector slightly underperformed the broader market during 2004, as safety concerns about Merck & Co. Inc.'s pain medication Vioxx and Pfizer Inc.'s drug Celebrex led to substantial weakness in the two pharmaceutical giants. However, the rising market helped propel a number of individual stocks to double-digit returns, so diversification and stock selection were critical. In this environment, the portfolio provided a total return of 9.59% (Class A shares, unadjusted for contract charges). In comparison, the Standard & Poor's 500 (S&P 500) Index returned 10.88% and the Goldman Sachs Healthcare Index returned 6.27%.

The portfolio generated strong performance within the service area during the period, where prescription benefit management companies such as Caremark Rx Inc. (2.90% of portfolio assets as of 12/31/04) produced strong gains. One of the portfolio's most disappointing positions was Eli Lilly & Co. (0.86% of portfolio assets as of 12/31/04), where safety issues surfaced over the company's major drug used to treat schizophrenia and bipolar disorder.

Although health care stocks experienced a difficult year, the industry should continue to benefit from increased demand from an aging global population and from new technologies and products that can treat illnesses more effectively and with fewer side effects. In addition, the re-election of President Bush and the Republican Congress should be favorable for health care stocks. We believe our focus on individual company research will enable us to build a portfolio of the most attractive companies within this dynamic and fast-growing industry.

James E. Fenger

Leefin Lai

*Co-Managers*

Thomas Bucher

*Consultant to the Portfolio*

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. The portfolio may focus its investments on certain industry sectors, thereby increasing its vulnerability to any single industry or regulatory development. All of these factors may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Standard & Poor's 500 (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 the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## Health Sciences Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	97%	96%
Cash Equivalents	3%	4%
	100%	100%

<b>Industry Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Pharmaceuticals	33%	38%
Biotechnology	27%	25%
Medical Supply & Specialty	17%	17%
Health Care Services	16%	15%
Hospital Management	4%	2%
Life Sciences Equipment	3%	3%
	100%	100%

*Asset allocation and industry diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 52. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month. Please call 1-800-778-1482.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Health Sciences Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 96.8%</b>			<b>Medical Supply &amp; Specialty 15.1%</b>		
<b>Health Care 96.8%</b>			<b>Pharmaceuticals 31.9%</b>		
<b>Biotechnology 26.6%</b>			Abbott Laboratories		
Actelion Ltd.*	8,300	852,555	Alcon, Inc.	83,500	3,895,275
Alkermes, Inc.*	40,900	576,281	Allergan, Inc.	5,600	451,360
Amgen, Inc.*	87,350	5,603,502	AstraZeneca PLC	19,500	1,580,865
Amylin Pharmaceuticals, Inc.*	72,300	1,688,928	AstraZeneca PLC	28,468	1,032,447
Axonyx, Inc.* (c)	49,500	306,900	Barrier Therapeutics, Inc.*	37,500	622,500
Biogen Idec, Inc.*	22,820	1,520,040	Elan Corp. PLC (ADR)* (c)	84,100	2,291,725
Celgene Corp.*	43,000	1,140,790	Eli Lilly & Co.	19,900	1,129,325
Discovery Laboratories, Inc.*	77,500	614,575	Eon Labs, Inc.*	20,300	548,100
DOV Pharmaceutical, Inc.* (c)	57,000	1,028,850	IVAX Corp.*	102,325	1,618,781
Encysive Pharmaceuticals, Inc.*	85,200	846,036	Johnson & Johnson	20,200	1,281,084
Eyetech Pharmaceuticals, Inc.*	16,600	755,300	Medicis Pharmaceutical Corp. "A"	22,200	779,442
Gen-Probe, Inc.*	27,800	1,256,838	Novartis AG (Registered)	73,576	3,707,594
Genentech, Inc.*	37,000	2,014,280	Pfizer, Inc.	87,040	2,340,506
Genzyme Corp.*	49,900	2,897,693	Pharmion Corp.*	19,800	835,758
Gilead Sciences, Inc.*	86,200	3,016,138	Roche Holding AG	26,398	3,038,869
GPC Biotech AG (ADR)* (c)	60,512	883,778	Sanofi-Aventis	24,250	1,938,154
Incyte Corp.*	50,400	503,496	Schering-Plough Corp.	180,100	3,760,488
Keryx Biopharmaceuticals, Inc.*	18,800	217,516	Sepracor, Inc.*	21,100	1,252,707
MedImmune, Inc.*	36,900	1,000,359	Teva Pharmaceutical Industries Ltd. (ADR)	32,100	958,506
MGI Pharma, Inc.*	70,800	1,983,108	Valeant Pharmaceuticals International	43,000	1,133,050
Millennium Pharmaceuticals, Inc.*	110,100	1,334,412	Watson Pharmaceuticals, Inc.*	20,700	679,167
Myogen, Inc.* (c)	22,500	181,575	Wyeth	108,800	4,633,792
Neurocrine Biosciences, Inc.*	21,900	1,079,670	Yamanouchi Pharmaceutical Co., Ltd.	44,000	1,713,282
Onyx Pharmaceuticals, Inc.*	16,200	524,718			<b>41,222,777</b>
OSI Pharmaceuticals, Inc.*	11,400	853,290			
Rigel Pharmaceuticals, Inc.*	49,000	1,196,580			
Telik, Inc.*	31,200	597,168			
		<b>34,474,376</b>			
<b>Health Care Services 15.7%</b>			<b>Total Common Stocks (Cost \$98,023,989)</b>		
Aetna, Inc.	19,100	2,382,725			<b>125,153,150</b>
Allscripts Healthcare Solutions, Inc.*	108,300	1,155,561	<b>Securities Lending Collateral 2.4%</b>		
Cardinal Health, Inc.	14,400	837,360	Daily Assets Fund Institutional, 2.25% (d) (e) (Cost \$3,116,500)		
Caremark Rx, Inc.*	96,900	3,820,767	3,116,500		<b>3,116,500</b>
Covance, Inc.*	19,500	755,625			
Humana, Inc.*	39,100	1,160,879			
Medco Health Solutions, Inc.*	16,584	689,894			
PSS World Medical, Inc.*	59,500	744,643			
UnitedHealth Group, Inc.	54,000	4,753,620			
WellPoint, Inc.*	34,900	4,013,500			
		<b>20,314,574</b>			
<b>Hospital Management 4.6%</b>					
Community Health Systems, Inc.*	72,300	2,015,724			
Kindred Healthcare, Inc.*	55,500	1,662,225			
Manor Care, Inc.	29,300	1,038,099			
PacificCare Health Systems, Inc.*	20,800	1,175,616			
		<b>5,891,664</b>			
<b>Life Sciences Equipment 2.9%</b>					
Charles River Laboratories International, Inc.*	45,200	2,079,652			
Invitrogen Corp.*	10,500	704,865			
PerkinElmer, Inc.	41,700	937,833			
		<b>3,722,350</b>			

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

	Shares	Value (\$)
<b>Cash Equivalents 2.6%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$3,396,350)	3,396,350	3,396,350
	% of Net Assets	Value (\$)
<b>Total Investment Portfolio</b> (Cost \$104,536,839) (a)	101.8	131,666,000
<b>Other Assets and Liabilities, Net</b>	(1.8)	(2,332,373)
<b>Net Assets</b>	100.0	129,333,627

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$105,244,036. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$26,421,964. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$27,654,224 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$1,232,260.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$3,026,640, which is 2.3% of total net assets.
- (d) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (e) Represents collateral held in connection with securities lending.

ADR: American Depositary Receipts

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Purchases and sales of investment securities (excluding short-term investments) for the year ended December 31, 2004, aggregated \$99,144,186 and \$92,031,653, respectively.

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At December 31, 2004, the Health Sciences Portfolio had a net tax basis capital loss carryforward of approximately \$5,204,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2010 (\$2,962,000) and December 31, 2011 (\$2,242,000), the respective expiration dates, whichever occurs first.



# Financial Statements

## Health Sciences Portfolio

### Statement of Assets and Liabilities as of December 31, 2004

#### Assets

Investments:	
Investments in securities, at value — including \$3,026,640 of securities loaned (cost \$98,023,989)	\$ 125,153,150
Investment in Daily Assets Fund Institutional (cost \$3,116,500)*	3,116,500
Investment in Scudder Cash Management QP Trust (cost \$3,396,350)	3,396,350
<b>Total investments in securities, at value (cost \$104,536,839)</b>	<b>131,666,000</b>
Foreign currency, at value (cost \$161,774)	162,077
Receivable for investments sold	1,039,896
Dividends receivable	3,420
Interest receivable	6,711
Receivable for Portfolio shares sold	11,158
Foreign taxes recoverable	8,095
Other assets	5,609
<b>Total assets</b>	<b>132,902,966</b>

#### Liabilities

Payable upon return of securities loaned	3,116,500
Payable for investments purchased	259,663
Payable for Portfolio shares redeemed	44,346
Accrued management fee	79,673
Other accrued expenses and payables	69,157
<b>Total liabilities</b>	<b>3,569,339</b>
<b>Net assets, at value</b>	<b>\$ 129,333,627</b>

#### Net Assets

Net assets consist of:	
Accumulated net investment loss	(283)
Net unrealized appreciation (depreciation) on:	
Investments	27,129,161
Foreign currency related transactions	1,126
Accumulated net realized gain (loss)	(5,911,665)
Paid-in capital	108,115,288
<b>Net assets, at value</b>	<b>\$ 129,333,627</b>

#### Net Asset Value

##### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$108,849,028 ÷ 9,070,686 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 12.00</b>
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##### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$20,484,599 ÷ 1,720,377 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 11.91</b>
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\* Represents collateral on securities loaned.

### Statement of Operations for the year ended December 31, 2004

#### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$24,700)	\$ 657,189
Interest — Scudder Cash Management QP Trust	48,482
Securities lending income, including income from Daily Assets Fund Institutional	22,564
<b>Total Income</b>	<b>728,235</b>
Expenses:	
Management fee	925,788
Custodian fees	28,505
Accounting fees	72,604
Distribution service fees (Class B)	40,385
Record keeping fees (Class B)	21,221
Auditing	33,939
Trustees' fees and expenses	6,701
Reports to shareholders	20,587
Other	4,539
<b>Total expenses, before expense reductions</b>	<b>1,154,269</b>
Expense reductions	(2,020)
<b>Total expenses, after expense reductions</b>	<b>1,152,249</b>
<b>Net investment income (loss)</b>	<b>(424,014)</b>

#### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	5,598,324
Foreign currency related transactions	(26,770)
	5,571,554
Net unrealized appreciation (depreciation) during the period on:	
Investments	5,777,160
Foreign currency related transactions	321
	5,777,481
<b>Net gain (loss) on investment transactions</b>	<b>11,349,035</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 10,925,021</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ (424,014)	\$ (234,147)
Net realized gain (loss) on investment transactions	5,571,554	(1,611,899)
Net unrealized appreciation (depreciation) on investment transactions during the period	5,777,481	27,513,109
Net increase (decrease) in net assets resulting from operations	10,925,021	25,667,063
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	14,603,543	17,907,340
Cost of shares redeemed	(16,500,791)	(9,770,087)
Net increase (decrease) in net assets from Class A share transactions	(1,897,248)	8,137,253
<b>Class B</b>		
Proceeds from shares sold	9,015,887	9,800,801
Cost of shares redeemed	(1,312,710)	(305,900)
Net increase (decrease) in net assets from Class B share transactions	7,703,177	9,494,901
<b>Increase (decrease) in net assets</b>	<b>16,730,950</b>	<b>43,299,217</b>
Net assets at beginning of period	112,602,677	69,303,460
Net assets at end of period (including accumulated net investment loss of \$283 and \$0, respectively)	<b>\$ 129,333,627</b>	<b>\$ 112,602,677</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	9,253,001	8,419,124
Shares sold	1,284,769	1,933,592
Shares redeemed	(1,467,084)	(1,099,715)
Net increase (decrease) in Portfolio shares	(182,315)	833,877
Shares outstanding at end of period	<b>9,070,686</b>	<b>9,253,001</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,034,876	39,123
Shares sold	802,351	1,024,680
Shares redeemed	(116,850)	(28,927)
Net increase (decrease) in Portfolio shares	685,501	995,753
Shares outstanding at end of period	<b>1,720,377</b>	<b>1,034,876</b>

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

# Financial Highlights

## Health Sciences Portfolio

### Class A

Years Ended December 31,	2004	2003	2002	2001 <sup>a</sup>
<b>Selected Per Share Data</b>				
Net asset value, beginning of period	\$ 10.95	\$ 8.19	\$ 10.65	\$ 10.00
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>c</sup>	(.03)	(.02)	(.03)	(.02)
Net realized and unrealized gain (loss) on investment transactions	1.08	2.78	(2.43)	.67
<b>Total from investment operations</b>	<b>1.05</b>	<b>2.76</b>	<b>(2.46)</b>	<b>.65</b>
Net asset value, end of period	\$ 12.00	\$ 10.95	\$ 8.19	\$ 10.65
Total Return (%)	9.59	33.70	(23.10)	6.50 <sup>d**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>				
Net assets, end of period (\$ millions)	109	101	69	56
Ratio of expenses before expense reductions (%)	.88	.87	.91	1.40*
Ratio of expenses after expense reductions (%)	.88	.87	.91	.95*
Ratio of net investment income (loss) (%)	(.29)	(.24)	(.38)	(.25)*
Portfolio turnover rate (%)	77	64	53	34*

### Class B

	2004	2003	2002 <sup>b</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 10.91	\$ 8.19	\$ 8.09
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>c</sup>	(.08)	(.07)	(.04)
Net realized and unrealized gain (loss) on investment transactions	1.08	2.79	.14
<b>Total from investment operations</b>	<b>1.00</b>	<b>2.72</b>	<b>.10</b>
Net asset value, end of period	\$ 11.91	\$ 10.91	\$ 8.19
Total Return (%)	9.17	33.21	1.24 <sup>**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	20	11	.3
Ratio of expenses (%)	1.27	1.26	1.16*
Ratio of net investment income (loss) (%)	(.68)	(.63)	(.92)*
Portfolio turnover rate (%)	77	64	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 operations 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 “Series”) is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end, registered management investment company organized as a Massachusetts business trust. The Series consists of nine diversified portfolios: Money Market Portfolio, Bond Portfolio, Balanced Portfolio, Growth and Income Portfolio, Capital Growth Portfolio, 21st Century Growth Portfolio, Global Discovery Portfolio, International Portfolio and Health Sciences Portfolio (individually or collectively hereinafter referred to as a “Portfolio” or the “Portfolios”). These financial statements report on the Growth and Income Portfolio, Capital Growth Portfolio, 21st Century Growth Portfolio, Global Discovery Portfolio, International Portfolio and Health Sciences Portfolio. The Series is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies (“Participating Insurance Companies”).

**Multiple Classes of Shares of Beneficial Interest.** The Series 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 distribution fees under the 1940 Act and record keeping fees equal to an annual rate of 0.25% and up to 0.15%, respectively, of the average daily net assets of the Class B shares of the 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 distribution fee and record keeping fees). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The Series’ 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 Series 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 or official closing 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 Series. If the pricing services are unable to provide valuations, securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from a broker-dealer. 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 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. The Series may use a fair valuation model to value international equity securities in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange.

**Securities Lending.** Each Portfolio may lend securities to financial institutions. The Portfolio retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the securities and to participate in any changes in their market value. The Portfolio requires the borrowers of the securities to maintain collateral with the Portfolio consisting of liquid, unencumbered assets having a value at least equal to the value of the securities loaned. The Portfolio may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to an Exemptive Order issued by the SEC. The Portfolio receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of fees paid to a lending agent. Either the Portfolio or the borrower may terminate the loan. The Portfolio is subject to all investment risks associated with the value of any cash collateral received, including, but not limited to, interest rate credit and liquidity risk associated with such investments. During the year ended December 31, 2004, the Growth and Income Portfolio, Capital Growth Portfolio, 21st Century Growth Portfolio, Global Discovery Portfolio, International Portfolio and Health Sciences Portfolio loaned securities.

**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. Each Portfolio

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 prices 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 market 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.

**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. The custodial bank holds the collateral in a separate account until the agreement matures. If the value of the securities falls below the principal amount of the repurchase agreement plus accrued interest, the financial institution deposits additional collateral by the following business day. If the financial institution either fails to deposit the required additional collateral or fails to repurchase the securities as agreed, the Portfolio has the right to sell the securities and recover any resulting loss from the financial institution. If the financial institution enters into bankruptcy, the Portfolio's claims on the collateral may be subject to legal proceedings.

**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 their exposure to changes in foreign currency exchange rates on their 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.

Global Discovery Portfolio and International Portfolio each entered into forward foreign currency exchange contracts during the year ended December 31, 2004.

**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 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.

**Taxes.** Each Portfolio is treated as a separate taxpayer as provided for in the Internal Revenue Code, 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.

Additionally, based on the Series' understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which each Portfolio invests, the Series will provide for foreign taxes, and where appropriate, deferred foreign taxes.

**Distribution of Income and Gains.** Each Portfolio 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 foreign currency exchange contracts, passive foreign investment companies, post October loss deferrals 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, 2004, 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	2,360,421	—	(35,930,000)	31,556,288
Capital Growth Portfolio	6,697,719	—	(232,875,000)	148,965,119
21st Century Growth Portfolio	—	—	(25,411,000)	10,710,583
Global Discovery Portfolio	1,417,370	—	(42,800,000)	80,007,158
International Portfolio	9,108,896	—	(221,457,000)	139,782,919
Health Sciences Portfolio	—	—	(5,204,000)	26,421,964

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, 2004	Years Ended December 31, 2003	Years Ended December 31, 2004	Years Ended December 31, 2003
Growth and Income Portfolio	1,352,130	1,547,438	—	—
Capital Growth Portfolio	3,797,565	2,603,548	—	—
21st Century Growth Portfolio	—	—	—	—
Global Discovery Portfolio	501,729	133,861	—	—
International Portfolio	6,676,662	3,359,779	—	—
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, such as reports to shareholders and legal fees, are allocated among the Portfolios.

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the 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. Related Parties

Under the Management Agreement with Deutsche Investment Management Americas Inc. (“DeIM” or the “Advisor”), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Portfolios in accordance with their 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.

Under the Series’ 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%

For the period May 1, 2004 through April 30, 2005, the Advisor and certain of its subsidiaries have agreed to limit their fees and reimburse expenses of each class of the 21st Century Growth Portfolio and Global Discovery Portfolio to the extent necessary to maintain the annualized expenses of Class A at 1.50% and Class B at 1.75% for 21st Century Growth Portfolio and Class A at 1.25% and Class B at 1.65% for Global Discovery Portfolio.

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, 2004, the Capital Growth Portfolio incurred a management fee equivalent to an annualized effective rate of 0.468% of the Portfolio’s average daily net assets.

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, 2004, International Portfolio incurred a management fee equivalent to an annualized effective rate of 0.87% of the Portfolio’s average daily net assets. DeAMIS serves as subadvisor with respect to the investment and reinvestment of assets in the International Portfolio. The Advisor compensates DeAMIS out of the management fee it receives from 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, 2004, Health Sciences Portfolio incurred a management fee equivalent to an annualized effective rate of 0.750% of the Portfolio's average daily net assets.

For the period May 1, 2004 through April 30, 2005, the Advisor and certain of its subsidiaries have agreed to limit their fees and reimburse expenses of each class of the Health Sciences Portfolio to the extent necessary to maintain the annualized expenses of Class A at 0.95% and Class B at 1.35%.

In addition, for the period September 1, 2004 through December 31, 2004, the Advisor agreed to waive a portion of its fee to the extent necessary to maintain the operating expenses of each class as follows:

<b>Portfolio</b>	
21st Century Growth Portfolio Class A	1.25%
21st Century Growth Portfolio Class B	1.25%
Global Discovery Portfolio Class A	1.24%
Global Discovery Portfolio Class B	1.24%
Capital Growth Portfolio Class A	1.08%
Capital Growth Portfolio Class B	1.08%
Growth and Income Portfolio Class A	1.09%
Growth and Income Portfolio Class B	1.09%
International Portfolio Class A	1.37%
International Portfolio Class B	1.37%

Under this arrangement, the Advisor reimbursed 21st Century Growth Portfolio, Global Discovery Portfolio and International Portfolio \$11,805, \$22,685 and \$9,159, respectively, for expenses.

The Portfolios paid insurance premiums to an unaffiliated insurance broker in 2002 and 2003. This broker in turn paid a portion of its commissions to an affiliate of the Advisor, which performed certain insurance brokerage services for the broker. The Advisor has agreed to reimburse the Portfolios in 2005 for the portion of commissions (plus interest) paid to the affiliate of the Advisor attributable to the premiums paid by the Portfolios. The amounts for 2002 and 2003 are as follows:

<b>Portfolio</b>	<b>Amount (\$)</b>	
	<b>2002</b>	<b>2003</b>
Growth and Income Portfolio	51	50
Capital Growth Portfolio	201	209
21st Century Growth Portfolio	12	15
Global Discovery Portfolio	45	53
International Portfolio	150	143
Health Sciences Portfolio	25	31

The Trustees authorized the Series 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 Series. Scudder Investments Service Company, an affiliate of the Advisor, is the transfer and dividend-paying agent of the Series. These affiliated entities have in turn entered into various agreements with third-party service providers to provide these services.

Scudder Distributors, Inc. ("SDI"), also an affiliate of the Advisor, is the Series' Distributor. 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 year ended December 31, 2004 are detailed in each Portfolio's Statement of Operations.

**Scudder Cash Management QP Trust.** Pursuant to an Exemptive Order issued by the SEC, the Series 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.



### C. Expense Reductions

For the year ended December 31, 2004, the Advisor agreed to reimburse the Portfolios, which represents a portion of the fee savings expected to be realized by the Advisor related to the outsourcing by the Advisor of certain administrative services to an unaffiliated service provider as follows:

Portfolio	Amount (\$)
Growth and Income Portfolio	2,376
Capital Growth Portfolio	6,130
21st Century Growth Portfolio	1,447
Global Discovery Portfolio	2,531
International Portfolio	4,638
Health Sciences Portfolio	1,941

In addition, 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 are used to reduce a portion of the Portfolios' expenses. During the year ended December 31, 2004, the custodian fees were reduced as follows:

Portfolio	Custody Credits (\$)
Growth and Income Portfolio	27
Capital Growth Portfolio	129
21st Century Growth Portfolio	42
Health Sciences Portfolio	79

### D. 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 29%, 21% and 20%, respectively. Four Participating Insurance Companies were owners of record of 60%, 17%, 12% and 10%, respectively, of the total outstanding Class B shares of the Portfolio.

**Capital 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 44%, 16% and 12%, respectively. One Participating Insurance Company was owner of record of 85% of the total outstanding Class B shares of the Portfolio.

**21st Century 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 63%, 21% and 13%, respectively. One Participating Insurance Company was owner of record of 89% 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 54%, 22% and 11%, respectively. Two Participating Insurance Companies were owners of record of 65% and 22%, respectively, 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 22%, 18% and 14%, respectively. One Participating Insurance Company was owner of record of 86% 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 76% and 23%, respectively. One Participating Insurance Company was owner of record of 83% of the total outstanding Class B shares of the Portfolio.

### E. Line of Credit

The Series and several other affiliated funds (the "Participants") share in a \$1.25 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, 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.

## **F. Regulatory Matters and Litigation**

Since at least July 2003, federal, state and industry regulators have been conducting ongoing inquiries and investigations (“inquiries”) into the mutual fund industry, and have requested information from numerous mutual fund companies, including Scudder Investments. It is not possible to determine what the outcome of these inquiries will be or what the effect, if any, would be on the funds or their advisors. Publicity about mutual fund practices arising from these industry-wide inquiries serves as the general basis of a number of private lawsuits against the Scudder funds. These lawsuits, which previously have been reported in the press, involve purported class action and derivative lawsuits, making various allegations and naming as defendants various persons, including certain Scudder funds, the funds’ investment advisors and their affiliates, certain individuals, including in some cases fund Trustees/Directors, officers, and other parties. Each Scudder fund’s investment advisor has agreed to indemnify the applicable Scudder funds in connection with these lawsuits, or other lawsuits or regulatory actions that may be filed making allegations similar to these lawsuits regarding market timing, revenue sharing, fund valuation or other subjects arising from or related to the pending inquiries. Based on currently available information, the funds’ investment advisors believe the likelihood that the pending lawsuits will have a material adverse financial impact on a Scudder fund is remote and such actions are not likely to materially affect their ability to perform under their investment management agreements with the Scudder funds.

## **G. Fund Merger**

On December 13, 2004, the Board of Scudder Variable Series I (the “Series”) approved, in principle, the merger of 21st Century Growth Portfolio into Scudder Small Cap Growth Portfolio, a Scudder portfolio managed by the same portfolio management team.

Completion of the merger is subject to a number of conditions, including final approval by the Series’ Board and approval by the shareholders of the 21st Century Growth Portfolio at a shareholder meeting expected to be held within approximately the next four months.

## **H. Payments Made by Affiliates**

During the year ended December 31, 2004, the Advisor fully reimbursed International Portfolio \$1,083 for losses incurred in violation of investment restrictions.

# Report of Independent Registered Public Accounting Firm

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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 “Series”) at December 31, 2004 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 Series’ 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards 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, 2004 by correspondence with the custodians and brokers, provide a reasonable basis for our opinion.

Boston, Massachusetts  
February 14, 2005

PricewaterhouseCoopers LLP

Pursuant to Section 854 of the Internal Revenue Code, the percentages of income dividends paid in calendar year 2004 which qualify for the dividends received deduction are as follows: Growth and Income Portfolio 100%, Capital Growth Portfolio 100% and Global Discovery Portfolio 60%.

International Portfolio paid foreign taxes of \$1,330,532 and earned \$7,639,065 of foreign source income during the year ended December 31, 2004. Pursuant to Section 853 of the Internal Revenue Code, International Portfolio designates \$.03 per share as foreign taxes paid and \$.13 per share as income earned from foreign sources for the year ended December 31, 2004.

Global Discovery Portfolio paid foreign taxes of \$202,861 and earned \$946,697 of foreign source income during the year ended December 31, 2004. Pursuant to Section 853 of the Internal Revenue Code, Global Discovery Portfolio designates \$.02 per share as foreign taxes paid and \$.05 per share as income earned from foreign sources for the year ended December 31, 2004.

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.

## Proxy Voting

A description of the series' policies and procedures for voting proxies for portfolio securities and information about how the series voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site — [scudder.com](http://scudder.com) (type "proxy voting" in the search field) — or on the SEC's Web site — [www.sec.gov](http://www.sec.gov). To obtain a written copy of the series' policies and procedures without charge, upon request, call us toll free at (800) 621-1048.

# Trustees and Officers

The following table presents certain information regarding the Trustees and Officers of the fund as of December 31, 2004. Each individual's year of birth 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 Trustee is c/o Dawn-Marie Driscoll, PO Box 100176, Cape Coral, FL 33904. Unless otherwise indicated, the address of each Officer is Two International Place, Boston, Massachusetts 02110. The term of office for each Trustee is until the next meeting of shareholders called for the purpose of electing Trustees and until the election and qualification of a successor, or until such Trustee sooner dies, resigns, retires or is removed as provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Trustee will hold office for an indeterminate period. The Trustees of the Trust may also serve in similar capacities with other funds in the fund complex.

## Independent Trustees

Name, Year of Birth, 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
Dawn-Marie Driscoll (1946) Chairman, 2004–present 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	46
Henry P. Becton, Jr. (1943) Trustee, 1990–present	President, WGBH Educational Foundation. Directorships: Becton Dickinson and Company (medical technology company); The A.H. Belo Company (media company); Concord Academy; Boston Museum of Science; Public Radio International. Former Directorships: American Public Television; New England Aquarium; Mass Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	46
Keith R. Fox (1954) 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)	46
Louis E. Levy (1932) 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; 4 funds overseen)	46
Jean Gleason Stromberg (1943) Trustee, 1999–present	Retired. Formerly, Consultant (1997–2001); Director, US 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.	46
Jean C. Tempel (1943) 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); United Way of Mass Bay; The Commonwealth Institute (supports women entrepreneurs). Trusteeships: Connecticut College, Vice Chair of Board, Chair, Finance Committee; Northeastern University, Vice Chair of Finance Committee, Chair, Funds and Endowment Committee	46
Carl W. Vogt (1936) 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	46

## Officers<sup>2</sup>

Name, Year of Birth, 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
Julian F. Sluyters <sup>3</sup> (1960) President and Chief Executive Officer, 2004–present	Managing Director, Deutsche Asset Management (since May 2004); President and Chief Executive Officer of The Germany Fund, Inc., The New Germany Fund, Inc., The Central Europe and Russia Fund, Inc., The Brazil Fund, Inc., The Korea Fund, Inc., Scudder Global High Income Fund, Inc. and Scudder New Asia Fund, Inc. (since May 2004); President and Chief Executive Officer, UBS Fund Services (2001–2003); Chief Administrative Officer (1998–2001) and Senior Vice President and Director of Mutual Fund Operations (1991–1998) UBS Global Asset Management
John Millette (1962) Vice President and Secretary, 1999–present	Director, Deutsche Asset Management
Kenneth Murphy (1963) Vice President, 2002–present	Vice President, Deutsche Asset Management (2000–present); formerly, Director, John Hancock Signature Services (1992–2000)

<b>Name, Year of Birth, Position(s) Held with the Fund and Length of Time Served<sup>1</sup></b>	<b>Principal Occupation(s) During Past 5 Years and Other Directorships Held</b>
Paul H. Schubert <sup>3</sup> (1963) Chief Financial Officer, 2004–present	Managing Director, Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds at UBS Global Asset Management (1994–2004)
Charles A. Rizzo (1957) Treasurer, 2002–present	Managing Director, Deutsche Asset Management (since April 2004); formerly, Director, Deutsche Asset Management (April 2000–March 2004); 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)
Lisa Hertz <sup>3</sup> (1970) Assistant Secretary, 2003–present	Assistant Vice President, Deutsche Asset Management
Daniel O. Hirsch <sup>4</sup> (1954) Assistant Secretary, 2002–present	Managing Director, 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)
Caroline Pearson (1962) Assistant Secretary, 1997–present	Managing Director, Deutsche Asset Management
Kevin M. Gay (1959) Assistant Treasurer, 2004–present	Vice President, Deutsche Asset Management
Salvatore Schiavone (1965) Assistant Treasurer, 2003–present	Director, Deutsche Asset Management
Kathleen Sullivan D’Eramo (1957) Assistant Treasurer, 2003–present	Director, Deutsche Asset Management
Philip Gallo <sup>3</sup> (1962) Chief Compliance Officer, 2004–present	Managing Director, Deutsche Asset Management (2003–present); formerly, Co-Head of Goldman Sachs Asset Management Legal (1994–2003)

<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, the 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. Interested persons receive no compensation from the funds.

<sup>3</sup> Address: 345 Park Avenue, New York, New York

<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 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.

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Chicago, IL 60606  
(800) 778-1482

**SCUDDER**  
INVESTMENTS

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This information must be preceded or accompanied by a current prospectus.

Portfolio changes should not be considered recommendations for action by individual investors.

Printed on recycled paper.  
SV51-V-2 (2/28/05)

Printed in the U.S.A.

Annual report to  
shareholders for the year  
ended December 31, 2004

## Scudder Variable Series II

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Scudder Aggressive Growth Portfolio  
Scudder Blue Chip Portfolio  
Scudder Fixed Income Portfolio  
Scudder Global Blue Chip Portfolio  
Scudder Government & Agency Securities Portfolio  
Scudder Growth Portfolio  
Scudder High Income Portfolio  
Scudder International Select Equity Portfolio  
Scudder Large Cap Value 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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## Performance Summary, Information About Your Portfolio's Expenses, Management Summary, Investment Portfolio, Financial Statements and Financial Highlights for:

3	Scudder Aggressive Growth Portfolio	168	SVS Dreman Financial Services Portfolio
12	Scudder Blue Chip Portfolio	176	SVS Dreman High Return Equity Portfolio
22	Scudder Fixed Income Portfolio	185	SVS Dreman Small Cap Value Portfolio
34	Scudder Global Blue Chip Portfolio	195	SVS Eagle Focused Large Cap Growth Portfolio
43	Scudder Government & Agency Securities Portfolio (formerly Scudder Government Securities Portfolio)	203	SVS Focus Value+Growth Portfolio
52	Scudder Growth Portfolio	212	SVS Index 500 Portfolio
61	Scudder High Income Portfolio	225	SVS INVESCO Dynamic Growth Portfolio
76	Scudder International Select Equity Portfolio	234	SVS Janus Growth and Income Portfolio
85	Scudder Large Cap Value Portfolio (formerly Scudder Contrarian Value Portfolio)	243	SVS Janus Growth Opportunities Portfolio
94	Scudder Money Market Portfolio	252	SVS Oak Strategic Equity Portfolio
103	Scudder Small Cap Growth Portfolio	260	SVS Turner Mid Cap Growth Portfolio
112	Scudder Strategic Income Portfolio	270	Notes to Financial Statements
129	Scudder Technology Growth Portfolio	290	Report of Independent Registered Public Accounting Firm
138	Scudder Total Return Portfolio	291	Tax Information
159	SVS Davis Venture Value Portfolio	292	Trustees and Officers

**This report must be preceded or accompanied by a prospectus. To obtain a prospectus, call (800) 778-1482 or your financial representative. We advise you to carefully consider the product's objectives, risks, charges and expenses before investing. The prospectus contains this and other important information about the product. Please read the prospectus carefully before you invest.**

*NOT FDIC/NCUA INSURED NO BANK GUARANTEE MAY LOSE VALUE*

*Investments in variable 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 the prospectus for specific details regarding its investments and risk profile.*

## Scudder Aggressive Growth Portfolio

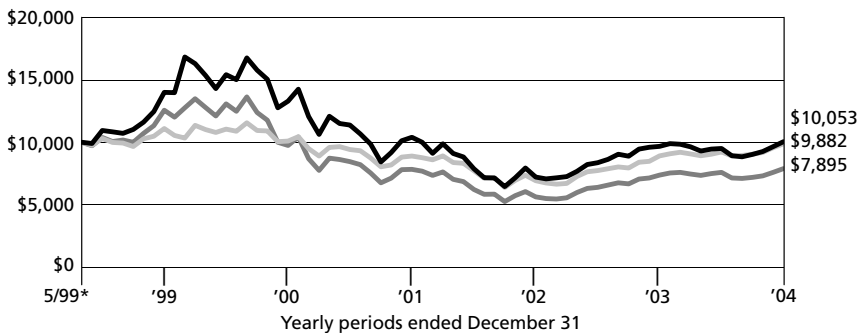
All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

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 Portfolio would be lower.

### Growth of an Assumed \$10,000 Investment in Scudder Aggressive Growth Portfolio from 5/1/1999 to 12/31/2004

- Scudder Aggressive Growth Portfolio — Class A
- Russell 3000 Growth Index
- S&P 500 Index



The Russell 3000 Growth Index is an unmanaged, capitalization-weighted index containing the growth stocks in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values. The Standard & Poor's (S&P) 500 Index is a capitalization-weighted index of 500 stocks 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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder Aggressive Growth Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$10,402	\$9,664	\$7,186	\$10,053
	Average annual total return	4.02%	-1.13%	-6.40%	.09%
Russell 3000 Growth Index	Growth of \$10,000	\$10,693	\$10,078	\$6,285	\$7,895
	Average annual total return	6.93%	.26%	-8.87%	-4.09%
S&P 500 Index	Growth of \$10,000	\$11,088	\$11,115	\$8,902	\$9,882
	Average annual total return	10.88%	3.59%	-2.30%	-.21%
Scudder Aggressive Growth Portfolio				1-Year	Life of Class**
Class B	Growth of \$10,000			\$10,361	\$13,136
	Average annual total return			3.61%	11.52%
Russell 3000 Growth Index	Growth of \$10,000			\$10,693	\$12,684
	Average annual total return			6.93%	9.98%
S&P 500 Index	Growth of \$10,000			\$11,088	\$12,800
	Average annual total return			10.88%	10.38%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 1999. Index returns begin April 30, 1999.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## Scudder Aggressive Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

<b>Actual Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,058.10	\$ 1,056.30
Expenses Paid per \$1,000*	\$ 5.10	\$ 7.05
<b>Hypothetical 5% Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,020.25	\$ 1,018.35
Expenses Paid per \$1,000*	\$ 5.00	\$ 6.92

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

<b>Annualized Expense Ratios</b>	<b>Class A</b>	<b>Class B</b>
Scudder Variable Series II — Scudder Aggressive Growth Portfolio	.98%	1.36%

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

## Scudder Aggressive Growth Portfolio

Growth stocks produced favorable returns during 2004, but as a group this asset class underperformed value stocks in the large-cap segment with the reverse holding true in small caps. Among the market capitalization segments, mid-cap stocks outperformed both small caps and large caps. Notably, small, low-quality and high-beta companies that dominated market returns in 2003 continued their reversal as larger-cap, higher-quality and dividend-paying securities outperformed during the annual period. The portfolio produced a total return of 4.02% (Class A shares, unadjusted for contract charges) for the 12-month period ended December 31, 2004, trailing the 6.93% return of its benchmark, the Russell 3000 Growth Index. During the period, the market was able to weather a mixed-bag of labor reports, the insurgency in Iraq, a mid-year spike in oil prices and the hotly contested presidential election.

Throughout the period, stock selection was the primary detractor from fund performance. While our stock selection in the financials, health care and materials sectors aided performance, our stock picks in information technology, industrials, consumer staples, and energy lagged their benchmark counterparts. Asset allocation contributed to performance for the period. The portfolio's underweight in industrials and health care and overweight in information technology detracted from performance. However, the portfolio's overweight in consumer discretionary and energy and underweight in consumer staples aided performance.

Going forward, we believe investors' renewed emphasis on fundamentals and valuations should generate additional performance opportunities for the portfolio given its emphasis on fundamental research and individual stock selection. We will continue to focus on sound growth companies, which are or should be able to produce healthy earnings growth.

Samuel A. Dedio

Robert S. Janis

Co-Lead Portfolio Managers

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 3000 Growth Index is an unmanaged, capitalization-weighted index containing the growth stocks in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.*

*The Standard & Poor's (S&P) 500 Index is a capitalization-weighted index of 500 stocks 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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

---

## Scudder Aggressive Growth Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	97%	97%
Cash Equivalents	3%	3%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Health Care	26%	22%
Information Technology	25%	33%
Consumer Discretionary	17%	17%
Financials	13%	9%
Consumer Staples	5%	5%
Industrials	5%	9%
Materials	5%	1%
Telecommunication Services	2%	1%
Energy	2%	3%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 7. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Aggressive Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 97.1%</b>					
<b>Consumer Discretionary 16.7%</b>					
<b>Hotels Restaurants &amp; Leisure 4.5%</b>					
RARE Hospitality International, Inc.*	19,400	618,084			
Station Casinos, Inc.	17,200	940,496			
The Cheesecake Factory, Inc.* (c)	34,200	1,110,474			
		<b>2,669,054</b>			
<b>Household Durables 2.7%</b>					
Harman International Industries, Inc.	12,800	1,625,600			
<b>Specialty Retail 5.5%</b>					
Aeropostale, Inc.*	39,400	1,159,542			
Chico's FAS, Inc.*	27,700	1,261,181			
Urban Outfitters, Inc.*	18,300	812,520			
		<b>3,233,243</b>			
<b>Textiles, Apparel &amp; Luxury Goods 4.0%</b>					
Columbia Sportswear Co.*	18,400	1,096,824			
Polo Ralph Lauren Corp.	29,900	1,273,740			
		<b>2,370,564</b>			
<b>Consumer Staples 4.9%</b>					
<b>Beverages 1.1%</b>					
Constellation Brands, Inc. "A"*	14,200	660,442			
<b>Food &amp; Staples Retailing 2.7%</b>					
Wal-Mart Stores, Inc.	30,700	1,621,574			
<b>Household Products 1.1%</b>					
Jarden Corp.*	15,100	655,944			
<b>Energy 1.9%</b>					
<b>Energy Equipment &amp; Services</b>					
BJ Services Co.	12,100	563,134			
Rowan Companies, Inc.*	22,700	587,930			
		<b>1,151,064</b>			
<b>Financials 12.5%</b>					
<b>Capital Markets 10.2%</b>					
E*TRADE Financial Corp.*	87,900	1,314,105			
Goldman Sachs Group, Inc.	8,300	863,532			
Investors Financial Services Corp. (c)	20,800	1,039,584			
Legg Mason, Inc.	26,250	1,923,075			
Lehman Brothers Holdings, Inc.	10,400	909,792			
		<b>6,050,088</b>			
<b>Diversified Financial Services 2.3%</b>					
Citigroup, Inc.	13,600	655,248			
The First Marblehead Corp.* (c)	12,700	714,375			
		<b>1,369,623</b>			
<b>Health Care 25.7%</b>					
<b>Biotechnology 2.8%</b>					
Amgen, Inc.*	14,800	949,420			
Charles River Laboratories International, Inc.*	15,200	699,352			
		<b>1,648,772</b>			
<b>Health Care Equipment &amp; Supplies 9.3%</b>					
C.R. Bard, Inc.	14,500	927,710			
Cooper Companies, Inc. (c)	8,300	585,897			
Fisher Scientific International, Inc.*	9,500	592,610			
Kinetic Concepts, Inc.*	23,200	1,770,160			
PerkinElmer, Inc.	36,800	827,632			
Zimmer Holdings, Inc.*	10,500	841,260			
		<b>5,545,269</b>			
<b>Health Care Providers &amp; Services 8.9%</b>					
Aetna, Inc.	7,900	985,525			
Community Health Systems, Inc.*	48,400	1,349,392			
Coventry Health Care, Inc.*	14,000	743,120			
Triad Hospitals, Inc.*	36,200	1,347,002			
UnitedHealth Group, Inc.	9,500	836,285			
		<b>5,261,324</b>			
<b>Pharmaceuticals 4.7%</b>					
Celgene Corp.*	41,400	1,098,342			
Johnson & Johnson	16,800	1,065,456			
Pfizer, Inc.	22,800	613,092			
		<b>2,776,890</b>			
<b>Industrials 4.6%</b>					
<b>Aerospace &amp; Defense 1.0%</b>					
United Technologies Corp.	5,700	589,095			
<b>Commercial Services &amp; Supplies 1.4%</b>					
Avery Dennison Corp.	13,700	821,589			
<b>Machinery 2.2%</b>					
Caterpillar, Inc.	7,300	711,823			
Dover Corp.	14,100	591,354			
		<b>1,303,177</b>			
<b>Information Technology 24.6%</b>					
<b>Communications Equipment 4.4%</b>					
Cisco Systems, Inc.*	58,100	1,121,330			
Polycom, Inc.*	25,800	601,656			
QUALCOMM, Inc.	20,500	869,200			
		<b>2,592,186</b>			
<b>Computers &amp; Peripherals 5.5%</b>					
Dell, Inc.*	32,300	1,361,122			
EMC Corp.*	67,000	996,290			
QLogic Corp.*	24,700	907,231			
		<b>3,264,643</b>			
<b>Internet Software &amp; Services 2.6%</b>					
Check Point Software Technologies Ltd.*	36,100	889,143			
Google, Inc. "A"*	3,400	656,540			
		<b>1,545,683</b>			
<b>IT Consulting &amp; Services 2.0%</b>					
Paychex, Inc.	34,400	1,172,352			
<b>Office Electronics 1.5%</b>					
Zebra Technologies Corp. "A"*	16,200	911,736			

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

	Shares	Value (\$)
<b>Semiconductors &amp; Semiconductor Equipment 2.9%</b>		
Linear Technology Corp.	25,500	988,380
Microchip Technology, Inc.	27,800	741,148
		<b>1,729,528</b>
<b>Software 5.7%</b>		
Cognos, Inc.*	34,800	1,533,288
Microsoft Corp.	69,600	1,859,016
		<b>3,392,304</b>
<b>Materials 4.2%</b>		
<b>Containers &amp; Packaging 1.4%</b>		
Packaging Corp. of America	35,400	833,670
<b>Metals &amp; Mining 2.8%</b>		
Peabody Energy Corp.	20,600	1,666,746
<b>Telecommunication Services 2.0%</b>		
<b>Wireless Telecommunication Services</b>		
Nextel Partners, Inc. "A"*	59,400	1,160,676
<b>Total Common Stocks (Cost \$47,343,395)</b>		<b>57,622,836</b>

<b>Securities Lending Collateral 3.6%</b>		
	Shares	Value (\$)
Daily Assets Fund Institutional, 2.25% (d) (e) (Cost \$2,157,464)	2,157,464	2,157,464
<b>Cash Equivalents 3.0%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$1,745,508)	1,745,508	1,745,508
	<b>% of</b>	<b>Value (\$)</b>
	<b>Net Assets</b>	
<b>Total Investment Portfolio</b> (Cost \$51,246,367) (a)	103.7	<b>61,525,808</b>
<b>Other Assets and Liabilities, Net</b>	(3.7)	<b>(2,173,449)</b>
<b>Net Assets</b>	100.0	<b>59,352,359</b>

#### Notes to Scudder Aggressive Growth Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$51,278,559. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$10,247,249. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$10,854,843 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$607,594.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$2,111,098, which is 3.6% of net assets.
- (d) Daily Assets Fund Institutional, an affiliated fund, is also managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (e) Represents collateral held in connection with securities lending.

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$47,343,395) — including \$2,111,098 of securities loaned	\$ 57,622,836
Investment in Daily Assets Fund Institutional (cost \$2,157,464)*	2,157,464
Investment in Scudder Cash Management QP Trust (cost \$1,745,508)	1,745,508
Total investments in securities, at value (cost \$51,246,367)	61,525,808
Receivable for investments sold	52,680
Dividends receivable	17,385
Interest receivable	3,379
Other assets	1,833
<b>Total assets</b>	<b>61,601,085</b>

### Liabilities

Payable for fund shares redeemed	1,007
Accrued management fee	14,561
Payable upon return of securities loaned	2,157,464
Other accrued expenses and payables	75,694
Total liabilities	2,248,726
<b>Net assets, at value</b>	<b>\$ 59,352,359</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	(2,093)
Net unrealized appreciation (depreciation) on investments	10,279,441
Accumulated net realized gain (loss)	(39,182,351)
Paid-in capital	88,257,362
<b>Net assets, at value</b>	<b>\$ 59,352,359</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$53,160,434 ÷ 5,401,258 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.84</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$6,191,925 ÷ 634,195 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.76</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$1,370)	\$ 428,176
Interest — Scudder Cash Management QP Trust	45,181
Securities lending income, including income from Daily Assets Fund Institutional	11,628
<b>Total Income</b>	<b>484,985</b>
Expenses:	
Management fee	433,852
Custodian and accounting fees	79,450
Distribution service fees (Class B)	12,985
Record keeping fees (Class B)	6,834
Auditing	44,356
Legal	16,080
Reports to shareholders	16,635
Other	2,616
Total expenses before expense reductions	612,808
Expense reductions	(43,768)
Total expenses after expense reductions	569,040
<b>Net investment income (loss)</b>	<b>(84,055)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	2,570,533
Net unrealized appreciation (depreciation) during the period on investments	(452,406)
<b>Net gain (loss) on investment transactions</b>	<b>2,118,127</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 2,034,072</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ (84,055)	\$ (295,832)
Net realized gain (loss) on investment transactions	2,570,533	(6,980,374)
Net unrealized appreciation (depreciation) on investment transactions during the period	(452,406)	21,899,078
Net increase (decrease) in net assets resulting from operations	2,034,072	14,622,872
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	4,965,372	19,207,656
Cost of shares redeemed	(9,699,886)	(21,817,569)
Net increase (decrease) in net assets from Class A share transactions	(4,734,514)	(2,609,913)
<b>Class B</b>		
Proceeds from shares sold	2,601,994	3,541,180
Cost of shares redeemed	(435,771)	(186,774)
Net increase (decrease) in net assets from Class B share transactions	2,166,223	3,354,406
<b>Increase (decrease) in net assets</b>	<b>(534,219)</b>	<b>15,367,365</b>
Net assets at beginning of period	59,886,578	44,519,213
Net assets at end of period (including accumulated net investment loss of \$2,093 and \$85, respectively)	<b>\$ 59,352,359</b>	<b>\$ 59,886,578</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	5,923,874	6,292,403
Shares sold	534,758	2,320,895
Shares redeemed	(1,057,374)	(2,689,424)
Net increase (decrease) in Portfolio shares	(522,616)	(368,529)
Shares outstanding at end of period	<b>5,401,258</b>	<b>5,923,874</b>
<b>Class B</b>		
Shares outstanding at beginning of period	405,258	11,689
Shares sold	277,046	417,145
Shares redeemed	(48,109)	(23,576)
Net increase (decrease) in Portfolio shares	228,937	393,569
Shares outstanding at end of period	<b>634,195</b>	<b>405,258</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 9.46	\$ 7.06	\$ 10.22	\$ 13.20	\$ 13.99
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	(.01)	(.05)	(.01)	.06	.18
Net realized and unrealized gain (loss) on investment transactions	.39	2.45	(3.11)	(2.92)	(.87)
<b>Total from investment operations</b>	<b>.38</b>	<b>2.40</b>	<b>(3.12)</b>	<b>(2.86)</b>	<b>(.69)</b>
<i>Less distributions from:</i>					
Net investment income	—	—	(.04)	(.12)	—
Net realized gains on investment transactions	—	—	—	—	(.10)
<b>Total distributions</b>	<b>—</b>	<b>—</b>	<b>(.04)</b>	<b>(.12)</b>	<b>(.10)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.84</b>	<b>\$ 9.46</b>	<b>\$ 7.06</b>	<b>\$ 10.22</b>	<b>\$ 13.20</b>
Total Return (%)	4.02 <sup>c</sup>	33.99 <sup>c</sup>	(30.66)	(21.76)	(4.96)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	53	56	44	71	66
Ratio of expenses before expense reductions (%)	1.02	.98	.81	.86	.95
Ratio of expenses after expense reductions (%)	.95	.95	.81	.86	.94
Ratio of net investment income (loss) (%)	(.11)	(.57)	(.19)	.58	1.22
Portfolio turnover rate (%)	103	91	71	42	103

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period 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.

<sup>c</sup> Total return would have been lower had certain expenses not been reduced.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 9.42	\$ 7.06	\$ 7.43
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	(.05)	(.09)	(.02)
Net realized and unrealized gain (loss) on investment transactions	.39	2.45	(.35)
<b>Total from investment operations</b>	<b>.34</b>	<b>2.36</b>	<b>(.37)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.76</b>	<b>\$ 9.42</b>	<b>\$ 7.06</b>
Total Return (%)	3.61 <sup>c</sup>	33.43 <sup>c</sup>	(4.98)**
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	6	4	.1
Ratio of expenses before expense reductions (%)	1.41	1.37	1.06*
Ratio of expenses after expense reductions (%)	1.34	1.34	1.06*
Ratio of net investment income (loss) (%)	(.50)	(.96)	(.47)*
Portfolio turnover rate (%)	103	91	71

<sup>a</sup> For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<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

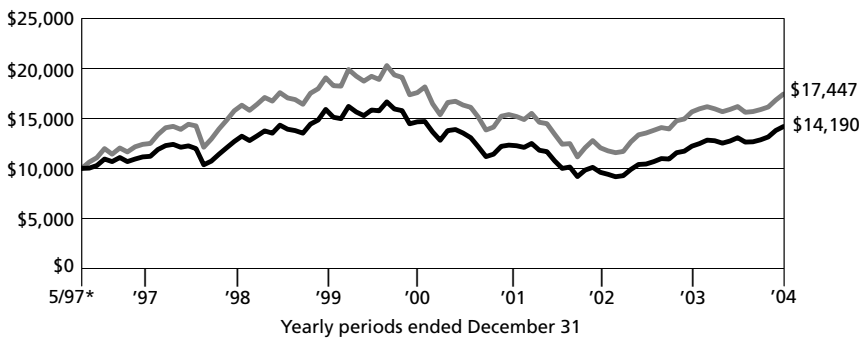
## Scudder Blue Chip Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in Scudder Blue Chip Portfolio from 5/1/1997 to 12/31/2004

- Scudder Blue Chip Portfolio — Class A
- Russell 1000 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. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder Blue Chip Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$11,604	\$11,500	\$8,923	\$14,190
	Average annual total return	16.04%	4.77%	-2.25%	4.67%
Russell 1000 Index	Growth of \$10,000	\$11,140	\$11,337	\$9,153	\$17,447
	Average annual total return	11.40%	4.27%	-1.76%	7.53%
Scudder Blue Chip Portfolio		1-Year	Life of Class**		
Class B	Growth of \$10,000	\$11,555	\$13,323		
	Average annual total return	15.55%	12.15%		
Russell 1000 Index	Growth of \$10,000	\$11,140	\$13,004		
	Average annual total return	11.40%	11.08%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 1997. Index returns begin April 30, 1997.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## Scudder Blue Chip Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$1,000.00	\$1,000.00
Ending Account Value 12/31/04	\$1,085.10	\$1,081.90
Expenses Paid per \$1,000*	\$ 3.72	\$ 5.68
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$1,000.00	\$1,000.00
Ending Account Value 12/31/04	\$1,021.63	\$1,019.75
Expenses Paid per \$1,000*	\$ 3.61	\$ 5.51

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — Scudder Blue Chip Portfolio	.71%	1.08%

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

## Scudder Blue Chip Portfolio

The US equity market produced a strong return in 2004, as steady economic growth and favorable corporate earnings results supported stock prices amid a potentially challenging environment. The portfolio returned 16.04% (Class A shares, unadjusted for contract charges), ahead of the 11.40% return of its benchmark, the Russell 1000 Index for the year ended December 31, 2004.

We believe the portfolio's strong performance is attributable to our disciplined focus on individual stock selection. We generated the best relative performance within the diversified financials, media and materials industry groups. The portfolio's position in Ryder System, Inc. (1.3% of net assets), a company that provides transportation and supply-chain-management solutions worldwide, also was a key contributor to performance as an improving economy sparked increased demand for trucking services. Our stock selection was weakest within the industrials sector, where an underweight position in General Electric Co. (2.1% of net assets) detracted from relative performance. General Electric looked weak based on our model, as its fundamental characteristics were poor relative to its industry peers, but the stock nevertheless outperformed in 2004.

Overall, we are pleased with the portfolio's performance and its current positioning. As always, we will continue to utilize a balanced approach to our stock selection methodology — using both value and growth attributes as well as technical signals — to help us pinpoint timely market opportunities.

Janet Campagna

Robert Wang

Co-Managers

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

## Risk Considerations

This Portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*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. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## Scudder Blue Chip Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	96%	97%
Cash Equivalents	4%	3%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	19%	19%
Health Care	15%	15%
Information Technology	14%	17%
Industrials	13%	10%
Consumer Discretionary	12%	15%
Consumer Staples	8%	7%
Energy	8%	6%
Materials	5%	4%
Telecommunication Services	4%	4%
Utilities	2%	3%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 16. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Blue Chip Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 96.6%</b>					
<b>Consumer Discretionary 11.9%</b>					
<b>Auto Components 1.2%</b>					
American Axle & Manufacturing Holdings, Inc.	87,100	2,670,486			
Autoliv, Inc.	25,600	1,236,480			
		<b>3,906,966</b>			
<b>Hotels Restaurants &amp; Leisure 1.0%</b>					
McDonald's Corp.	88,300	2,830,898			
Regal Entertainment Group "A"	24,100	500,075			
		<b>3,330,973</b>			
<b>Internet &amp; Catalog Retail 0.7%</b>					
eBay, Inc.*	18,200	2,116,296			
<b>Media 3.2%</b>					
McGraw-Hill Companies, Inc.	54,100	4,952,314			
Walt Disney Co.	186,100	5,173,580			
		<b>10,125,894</b>			
<b>Multiline Retail 0.8%</b>					
Target Corp.	48,500	2,518,605			
<b>Specialty Retail 3.5%</b>					
American Eagle Outfitters, Inc.	54,300	2,557,530			
Home Depot, Inc.	129,400	5,530,556			
PETCO Animal Supplies, Inc.*	11,900	469,812			
The Gap, Inc.	124,800	2,635,776			
		<b>11,193,674</b>			
<b>Textiles, Apparel &amp; Luxury Goods 1.5%</b>					
NIKE, Inc. "B"	31,800	2,883,942			
V.F. Corp.	34,200	1,893,996			
		<b>4,777,938</b>			
<b>Consumer Staples 7.8%</b>					
<b>Beverages 0.5%</b>					
Adolph Coors Co. "B" (e)	22,900	1,732,843			
<b>Food &amp; Drug Retailing 1.7%</b>					
7-Eleven, Inc.*	24,400	584,380			
BJ's Wholesale Club, Inc.*	43,800	1,275,894			
Costco Wholesale Corp.	73,800	3,572,658			
Wal-Mart Stores, Inc.	100	5,282			
		<b>5,438,214</b>			
<b>Food Products 2.9%</b>					
Pilgrim's Pride Corp. (e)	97,000	2,975,960			
Tyson Foods, Inc. "A"	179,500	3,302,800			
William Wrigley Jr. Co.	44,500	3,078,955			
		<b>9,357,715</b>			
<b>Personal Products 1.7%</b>					
Gillette Co.	119,900	5,369,122			
<b>Tobacco 1.0%</b>					
Altria Group, Inc.	19,200	1,173,120			
Loews Corp. — Carolina Group	9,100	263,445			
UST, Inc.	35,900	1,727,149			
		<b>3,163,714</b>			
<b>Energy 7.6%</b>					
<b>Oil &amp; Gas</b>					
Anadarko Petroleum Corp.	72,200	4,679,282			
Apache Corp.	89,100	4,505,787			
Burlington Resources, Inc.	41,100	1,787,850			
Chesapeake Energy Corp.	42,500	701,250			
Devon Energy Corp.	32,300	1,257,116			
El Paso Corp.	147,800	1,537,120			
ExxonMobil Corp.	101,940	5,225,444			
Noble Energy Inc.	20,500	1,264,030			
Valero Energy Corp.	76,000	3,450,400			
		<b>24,408,279</b>			
<b>Financials 18.3%</b>					
<b>Banks 6.5%</b>					
Bank of America Corp.	203,800	9,576,562			
Fremont General Corp.	21,900	551,442			
Golden West Financial Corp.	2,400	147,408			
National City Corp.	9,400	352,970			
US Bancorp.	173,500	5,434,020			
Wachovia Corp.	30,800	1,620,080			
Wells Fargo & Co.	49,400	3,070,210			
		<b>20,752,692</b>			
<b>Capital Markets 2.5%</b>					
Lehman Brothers Holdings, Inc.	50,200	4,391,496			
Morgan Stanley	64,400	3,575,488			
		<b>7,966,984</b>			
<b>Consumer Finance 1.0%</b>					
American Express Co.	10,600	597,522			
Capital One Financial Corp.	19,000	1,599,990			
Provident Financial Corp.*	64,400	1,060,668			
		<b>3,258,180</b>			
<b>Diversified Financial Services 2.7%</b>					
Citigroup, Inc.	52,600	2,534,268			
Freddie Mac	77,600	5,719,120			
JPMorgan Chase & Co.	9,464	369,191			
		<b>8,622,579</b>			
<b>Insurance 4.1%</b>					
American International Group, Inc.	8,412	552,416			
Chubb Corp.	30,700	2,360,830			
Loews Corp.	19,300	1,356,790			
MetLife, Inc.	97,500	3,949,725			
Odyssey Re Holdings Corp. (e)	6,800	171,428			
W.R. Berkley Corp.	101,650	4,794,830			
		<b>13,186,019</b>			
<b>Real Estate 1.5%</b>					
Apartment Investment & Management Co. "A" (REIT)	5,700	219,678			
Avalonbay Communities, Inc. (REIT)	10,300	775,590			
Camden Property Trust (REIT)	7,200	367,200			
CenterPoint Properties Corp. (REIT)	5,200	249,028			
Equity Office Properties Trust (REIT)	29,600	861,952			
Equity Residential (REIT)	16,300	589,734			
General Growth Properties, Inc. (REIT)	12,300	444,768			

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

	Shares	Value (\$)
Rayonier, Inc.	8,200	401,062
The Mills Corp. (REIT)	4,900	312,424
Vornado Realty Trust (REIT)	5,800	441,554
		<b>4,662,990</b>
<b>Health Care 14.1%</b>		
<b>Biotechnology 2.4%</b>		
Cephalon, Inc.*	10,000	508,800
Charles River Laboratories International, Inc.*	52,000	2,392,520
Genzyme Corp.*	30,400	1,765,328
Gilead Sciences, Inc.*	86,500	3,026,635
		<b>7,693,283</b>
<b>Health Care Equipment &amp; Supplies 2.1%</b>		
Baxter International, Inc.	25,200	870,408
Becton, Dickinson & Co.	79,600	4,521,280
Dade Behring, Inc.*	7,900	442,400
Respironics, Inc.*	14,400	782,784
		<b>6,616,872</b>
<b>Health Care Providers &amp; Services 4.1%</b>		
AmerisourceBergen Corp.	55,600	3,262,608
Covance, Inc.*	11,800	457,250
Coventry Health Care, Inc.*	66,300	3,519,204
UnitedHealth Group, Inc.	67,000	5,898,010
		<b>13,137,072</b>
<b>Pharmaceuticals 5.5%</b>		
Allergan, Inc.	6,000	486,420
Bristol-Myers Squibb Co.	8,000	204,960
Johnson & Johnson	137,182	8,700,082
Medicis Pharmaceutical Corp. "A"	12,500	438,875
Merck & Co., Inc.	59,900	1,925,186
Pfizer, Inc.	221,150	5,946,724
		<b>17,702,247</b>
<b>Industrials 12.3%</b>		
<b>Aerospace &amp; Defense 3.8%</b>		
Boeing Co.	87,400	4,524,698
General Dynamics Corp.	29,700	3,106,620
Northrop Grumman Corp.	2,100	114,156
Raytheon Co.	116,200	4,512,046
		<b>12,257,520</b>
<b>Air Freight &amp; Logistics 3.1%</b>		
FedEx Corp.	52,400	5,160,876
J.B. Hunt Transport Services, Inc.	13,700	614,445
Ryder System, Inc.	86,900	4,151,213
		<b>9,926,534</b>
<b>Commercial Services &amp; Supplies 2.1%</b>		
Cendant Corp.	181,600	4,245,808
Corporate Executive Board Co.	12,600	843,444
The Brinks Co.	37,200	1,470,144
		<b>6,559,396</b>
<b>Industrial Conglomerates 2.2%</b>		
3M Co.	2,500	205,175
General Electric Co.	188,100	6,865,650
		<b>7,070,825</b>

	Shares	Value (\$)
<b>Machinery 0.8%</b>		
Cummins, Inc.	31,000	2,597,490
<b>Road &amp; Rail 0.3%</b>		
Norfolk Southern Corp.	22,200	803,418
<b>Information Technology 13.8%</b>		
<b>Communications Equipment 1.9%</b>		
Cisco Systems, Inc.*	296,900	5,730,170
Motorola, Inc.	14,600	251,120
		<b>5,981,290</b>
<b>Computers &amp; Peripherals 3.0%</b>		
International Business Machines Corp.	73,000	7,196,340
Sun Microsystems, Inc.*	443,200	2,384,416
		<b>9,580,756</b>
<b>Internet Software &amp; Services 0.8%</b>		
Ingram Micro, Inc. "A"*	65,600	1,364,480
Yahoo!, Inc.*	29,800	1,122,864
		<b>2,487,344</b>
<b>IT Consulting &amp; Services 0.7%</b>		
Unisys Corp.*	236,800	2,410,624
<b>Semiconductors &amp; Semiconductor Equipment 4.8%</b>		
Advanced Micro Devices, Inc.*	83,900	1,847,478
Cree, Inc.* (e)	48,300	1,935,864
Intel Corp.	270,900	6,336,351
MEMC Electronic Materials, Inc.*	59,700	791,025
Microchip Technology, Inc.	46,800	1,247,688
Micron Technology, Inc.*	186,000	2,297,100
National Semiconductor Corp.*	50,600	908,270
		<b>15,363,776</b>
<b>Software 2.6%</b>		
Autodesk, Inc.	24,800	941,160
Microsoft Corp.	111,300	2,972,823
Oracle Corp.*	285,400	3,915,688
Symantec Corp.*	14,600	376,096
		<b>8,205,767</b>
<b>Materials 4.4%</b>		
<b>Chemicals 1.2%</b>		
Eastman Chemical Co.	19,100	1,102,643
Monsanto Co.	49,100	2,727,505
		<b>3,830,148</b>
<b>Containers &amp; Packaging 0.9%</b>		
Owens-Illinois, Inc.*	119,800	2,713,470
<b>Metals &amp; Mining 2.3%</b>		
Phelps Dodge Corp.	36,900	3,650,148
Southern Peru Copper Corp. (e)	10,600	500,426
United States Steel Corp. (e)	61,800	3,167,250
		<b>7,317,824</b>
<b>Paper &amp; Forest Products 0.0%</b>		
Louisiana-Pacific Corp.	3,100	82,894

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



	Shares	Value (\$)
<b>Telecommunication Services 4.3%</b>		
<b>Diversified Telecommunication Services 2.8%</b>		
Sprint Corp.	130,300	3,237,955
Verizon Communications, Inc.	142,900	5,788,879
		<b>9,026,834</b>
<b>Wireless Telecommunication Services 1.5%</b>		
Nextel Communications, Inc. "A"*	39,800	1,194,000
Nextel Partners, Inc. "A"*	96,800	1,891,472
Western Wireless Corp. "A"*	53,300	1,561,690
		<b>4,647,162</b>
<b>Utilities 2.1%</b>		
<b>Electric Utilities 1.5%</b>		
American Electric Power Co.	31,000	1,064,540
Exelon Corp.	83,600	3,684,251
		<b>4,748,791</b>
<b>Multi-Utilities 0.6%</b>		
Duke Energy Corp.	85,200	2,158,115
<b>Total Common Stocks (Cost \$272,550,345)</b>		<b>308,809,130</b>

	Principal Amount (\$)	Value (\$)
<b>US Government Backed 0.2%</b>		
US Treasury Bill:		
1.949%** , 1/20/2005 (f)	90,000	89,922
1.813%** , 1/20/2005 (f)	615,000	614,422
2.946%** , 1/20/2005 (f)	25,000	24,975
<b>Total US Government Backed (Cost \$729,066)</b>		<b>729,319</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 \$294,567,784. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$34,300,956. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$36,329,188 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$2,028,232.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (d) Represents collateral held in connection with securities lending.
- (e) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$7,509,709 which is 2.3% of total net assets.
- (f) At December 31, 2004, this security, in part or in whole, has been segregated to cover initial margin requirements for open futures contracts.

REIT: Real Estate Investment Trust

At December 31, 2004, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value (\$)	Value (\$)	Unrealized Appreciation (\$)
S&P 500	3/17/2005	36	10,694,997	10,923,300	228,303

	Shares	Value (\$)
<b>Securities Lending Collateral 2.4%</b>		
Daily Assets Fund Institutional, 2.25% (c) (d) (Cost \$7,703,810)	7,703,810	7,703,810
<b>Cash Equivalents 3.7%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$11,626,481)	11,626,481	11,626,481
	<b>% of Net Assets</b>	<b>Value (\$)</b>
<b>Total Investment Portfolio (Cost \$292,609,702) (a)</b>	102.9	<b>328,868,740</b>
<b>Other Assets and Liabilities, Net</b>	(2.9)	<b>(9,176,138)</b>
<b>Net Assets</b>	100.0	<b>319,692,602</b>

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$273,279,411) — including \$7,509,709 of securities loaned	\$ 309,538,449
Investment in Daily Assets Fund Institutional (cost \$7,703,810)*	7,703,810
Investment in Scudder Cash Management QP Trust (cost \$11,626,481)	11,626,481
Total investments in securities, at value (cost \$292,609,702)	328,868,740
Receivable for investments sold	42,265,548
Dividends receivable	290,468
Interest receivable	21,375
Receivable for Portfolio shares sold	154,705
Other assets	9,451
<b>Total assets</b>	<b>371,610,287</b>

### Liabilities

Payable for Portfolio shares redeemed	328,600
Payable for investments purchased	43,622,453
Payable for daily variation margin on open futures contracts	8,259
Payable upon return of securities loaned	7,703,810
Accrued management fee	173,127
Other accrued expenses and payables	81,436
<b>Total liabilities</b>	<b>51,917,685</b>
<b>Net assets, at value</b>	<b>\$ 319,692,602</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	2,788,284
Net unrealized appreciation (depreciation) on:	
Investments	36,259,038
Futures	228,303
Accumulated net realized gain (loss)	(18,711,816)
Paid-in capital	299,128,793
<b>Net assets, at value</b>	<b>\$ 319,692,602</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share ( $\$282,957,768 \div 20,734,323$ outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 13.65</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share ( $\$36,734,834 \div 2,700,912$ outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 13.60</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$88)	\$ 4,842,841
Interest — Scudder Cash Management QP Trust	126,342
Interest	7,305
Securities lending income, including income from Daily Assets Fund Institutional	7,304
<b>Total Income</b>	<b>4,983,792</b>
Expenses:	
Management fee	1,814,765
Custodian fees	18,656
Distribution service fees (Class B)	67,530
Record keeping fees (Class B)	34,564
Auditing	47,569
Legal	19,110
Trustees' fees and expenses	7,091
Reports to shareholders	32,455
Other	16,886
<b>Total expenses, before expense reductions</b>	<b>2,058,626</b>
<b>Expense reductions</b>	<b>(2,934)</b>
<b>Total expenses, after expense reductions</b>	<b>2,055,692</b>
<b>Net investment income (loss)</b>	<b>2,928,100</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	37,952,397
Futures	766,622
	38,719,019
Net unrealized appreciation (depreciation) during the period on:	
Investments	1,044,088
Futures	67,347
	1,111,435
<b>Net gain (loss) on investment transactions</b>	<b>39,830,454</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 42,758,554</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 2,928,100	\$ 1,750,488
Net realized gain (loss) on investment transactions	38,719,019	15,303,859
Net unrealized appreciation (depreciation) on investment transactions during the period	1,111,435	40,462,393
Net increase (decrease) in net assets resulting from operations	42,758,554	57,516,740
Distributions to shareholders from:		
Net investment income		
Class A	(1,626,701)	(1,353,726)
Class B	(56,503)	(7,619)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	28,844,570	48,054,210
Reinvestment of distributions	1,626,701	1,353,726
Cost of shares redeemed	(26,173,350)	(35,300,630)
Net increase (decrease) in net assets from Class A share transactions	4,297,921	14,107,306
<b>Class B</b>		
Proceeds from shares sold	16,893,828	14,291,287
Reinvestment of distributions	56,503	7,619
Cost of shares redeemed	(1,310,947)	(18,533)
Net increase (decrease) in net assets from Class B share transactions	15,639,384	14,280,373
<b>Increase (decrease) in net assets</b>	<b>61,012,655</b>	<b>84,543,074</b>
Net assets at beginning of period	258,679,947	174,136,873
Net assets at end of period (including undistributed net investment income of \$2,788,284 and \$1,620,422, respectively)	<b>\$ 319,692,602</b>	<b>\$ 258,679,947</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	20,421,127	18,535,421
Shares sold	2,286,747	5,312,621
Shares issued to shareholders in reinvestment of distributions	132,360	150,749
Shares redeemed	(2,105,911)	(3,577,664)
Net increase (decrease) in Portfolio shares	313,196	1,885,706
Shares outstanding at end of period	<b>20,734,323</b>	<b>20,421,127</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,427,149	40,975
Shares sold	1,373,668	1,387,142
Shares issued to shareholders in reinvestment of distributions	4,597	849
Shares redeemed	(104,502)	(1,817)
Net increase (decrease) in Portfolio shares	1,273,763	1,386,174
Shares outstanding at end of period	<b>2,700,912</b>	<b>1,427,149</b>

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 11.84	\$ 9.37	\$ 12.07	\$ 14.41	\$ 15.69
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.13	.08	.07	.05	.07
Net realized and unrealized gain (loss) on investment transactions	1.76	2.45	(2.73)	(2.33)	(1.29)
<b>Total from investment operations</b>	<b>1.89</b>	<b>2.53</b>	<b>(2.66)</b>	<b>(2.28)</b>	<b>(1.22)</b>
<i>Less distributions from:</i>					
Net investment income	(.08)	(.06)	(.04)	(.06)	(.06)
<b>Net asset value, end of period</b>	<b>\$ 13.65</b>	<b>\$ 11.84</b>	<b>\$ 9.37</b>	<b>\$ 12.07</b>	<b>\$ 14.41</b>
Total Return (%)	16.04	27.25	(22.11)	(15.81)	(7.84)

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	283	242	174	240	228
Ratio of expenses (%)	.70	.71	.69	.69	.71
Ratio of net investment income (loss) (%)	1.08	.82	.65	.42	.44
Portfolio turnover rate (%)	249	182	195	118	86

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period 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

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 11.80	\$ 9.35	\$ 10.28
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.09	.04	.03
Net realized and unrealized gain (loss) on investment transactions	1.74	2.45	(.96)
<b>Total from investment operations</b>	<b>1.83</b>	<b>2.49</b>	<b>(.93)</b>
<i>Less distributions from:</i>			
Net investment income	(.03)	(.04)	—
<b>Net asset value, end of period</b>	<b>\$ 13.60</b>	<b>\$ 11.80</b>	<b>\$ 9.35</b>
Total Return (%)	15.55	26.76	(9.05)**

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	37	17	.4
Ratio of expenses (%)	1.08	1.10	.94*
Ratio of net investment income (loss) (%)	.70	.43	.61*
Portfolio turnover rate (%)	249	182	195

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

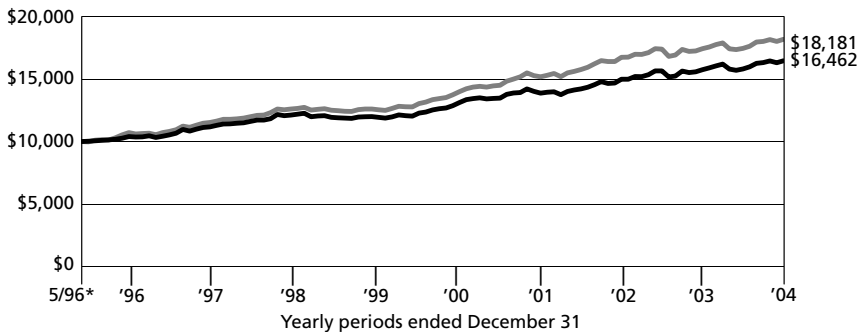
## Scudder Fixed Income Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Investments by the Portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. This Portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and changes in political/economic conditions and market risks. All of these factors may result in greater share price volatility. Please see this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in Scudder Fixed Income Portfolio from 5/1/1996 to 12/31/2004

- Scudder Fixed Income Portfolio — Class A
- Lehman Brothers Aggregate Bond Index



The Lehman Brothers Aggregate Bond (LBAB) Index is an unmanaged market value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder Fixed Income Portfolio	1-Year	3-Year	5-Year	Life of Portfolio*
<b>Class A</b>				
Growth of \$10,000	\$10,453	\$11,869	\$13,790	\$16,462
Average annual total return	4.53%	5.88%	6.64%	5.92%
<b>Lehman Brothers Aggregate Bond Index</b>				
Growth of \$10,000	\$10,434	\$11,976	\$14,497	\$18,181
Average annual total return	4.34%	6.19%	7.71%	7.14%
Scudder Fixed Income Portfolio	1-Year	Life of Class**		
<b>Class B</b>				
Growth of \$10,000	\$10,410	\$11,482		
Average annual total return	4.10%	5.68%		
<b>Lehman Brothers Aggregate Bond Index</b>				
Growth of \$10,000	\$10,434	\$11,539		
Average annual total return	4.34%	5.89%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 1996. Index returns begins April 30, 1996. Total returns would have been lower for the 5-Year and Life of Portfolio periods for Class A shares if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## Scudder Fixed Income Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,041.40	\$ 1,038.80
Expenses Paid per \$1,000*	\$ 3.37	\$ 5.26
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,021.90	\$ 1,020.05
Expenses Paid per \$1,000*	\$ 3.34	\$ 5.21

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — Scudder Fixed Income Portfolio	.66%	1.02%

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

## Scudder Fixed Income Portfolio

Although delayed on mixed economic data, the Federal Open Market Committee finally embarked on a “measured” pace of monetary policy tightening at mid-year that included five separate 25 basis points (“bps” — a basis point is one hundredth of a percentage point) increases. The federal funds rate finished the year 125 bps higher at 2.25%. The yield curve flattened in response to the Fed policy coupled with moderate employment growth and the perception that inflation will not accelerate too quickly. The two-year Treasury yield rose 125 bps, in line with the Fed, while the 10-year Treasury yield circuitously finished the year at 4.22% — down only 3 bps from where it started. Against this backdrop, the portfolio returned 4.53% (Class A shares, unadjusted for contract charges) for the 12-month period ended December 31, 2004, outpacing the 4.34% return of its benchmark, the Lehman Brothers Aggregate Bond Index. Please see the following page for standardized performance as of December 31, 2004.

All non-Treasury sectors significantly outperformed similar duration Treasury issues during the year. Credit, the best-performing sector, benefited from excellent fundamentals, continued demand for yield and low volatility. Our security selection within Credit was a positive contributor to performance. Our mortgage holdings emphasized securities that are less prepayment-sensitive than the pass-through issues that comprise the index. On balance, our activities in the mortgage sector contributed to performance, despite declining volatility. The remaining high-quality sectors (asset-backed securities, collateralized mortgage-backed securities) generated solid excess returns as valuations improved.

Gary W. Bartlett	Timothy C. Vile	
Warren S. Davis	J. Christopher Gagnier	
Thomas J. Flaherty	Daniel R. Taylor	William T. Lissenden
Co-Lead Managers		Portfolio Manager
Deutsche Investment Management Americas Inc.		

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product’s most recent month-end performance. Performance doesn’t reflect charges and fees (“contract charges”) associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

Investments by the portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. This portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and changes in political/economic conditions and market risks. All of these factors may result in greater share price volatility. Please see this portfolio’s prospectus for specific details regarding its investments and risk profile.

A Treasury’s guarantee relates only to the prompt payment of principal and interest and does not remove market risks if the investment is sold prior to maturity.

*The Lehman Brothers Aggregate Bond Index is an unmanaged, market-value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities. Index returns assume reinvested dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## Scudder Fixed Income Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Collateralized Mortgage Obligations	24%	19%
US Government Backed	17%	10%
Corporate Bonds	16%	25%
Commercial and Non-Agency Mortgage Backed Securities	11%	—
Asset Backed	8%	12%
Foreign Bonds — US\$ Denominated	8%	5%
US Government Agency Sponsored Pass-Throughs	7%	18%
Municipal Investments	5%	5%
Cash Equivalents, net	4%	6%
	100%	100%

<b>Corporate and Foreign Bonds Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	45%	29%
Utilities	18%	12%
Energy	11%	15%
Telecommunication Services	8%	4%
Health Care	7%	4%
Consumer Discretionary	6%	12%
Materials	4%	8%
Industrials	1%	15%
Consumer Staples	—	1%
	100%	100%

<b>Quality</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
US Government and Agencies	49%	46%
AAA*	26%	26%
AA	3%	2%
A	11%	9%
BBB	11%	11%
BB	—	4%
B	—	2%
	100%	100%

\* Includes cash equivalents

<b>Effective Maturity</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Under 1 year	9%	6%
1 < 5 years	46%	51%
5 < 10 years	25%	24%
10 < 15 years	10%	8%
15 years or greater	10%	11%
	100%	100%

Weighted average effective maturity: 6.7 years and 6.8 years, respectively.

Asset allocation, diversification, quality and effective maturity are subject to change.

The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Fund's credit quality does not remove market risk.

For more complete details about the Portfolio's investment portfolio, see page 26. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.



## Scudder Fixed Income Portfolio

	Principal Amount (\$)	Value (\$)		Principal Amount (\$)	Value (\$)
<b>Corporate Bonds 16.5%</b>					
<b>Consumer Discretionary 0.9%</b>					
Auburn Hills Trust, 12.375%, 5/1/2020	161,000	252,523			
Comcast Cable Communications Holdings, Inc., 8.375%, 3/15/2013	690,000	850,836			
Comcast MO of Delaware, Inc., 9.0%, 9/1/2008	490,000	572,383			
DaimlerChrysler NA Holdings Corp., 4.75%, 1/15/2008	540,000	551,530			
General Motors Corp., 8.375%, 7/15/2033	205,000	212,397			
Tele-Communications, Inc., "A", 9.875%, 6/15/2022	250,000	354,895			
		<b>2,794,564</b>			
<b>Energy 1.9%</b>					
CenterPoint Energy Resources Corp., Series B, 7.875%, 4/1/2013	735,000	873,614			
Enterprise Products Operating LP, 7.5%, 2/1/2011	580,000	657,601			
Halliburton Co., 5.5%, 10/15/2010	1,770,000	1,864,302			
Pemex Project Funding Master Trust, 144A, 3.79%*, 6/15/2010	930,000	954,180			
Tri-State Generation & Transmission Association, 144A, 6.04%, 1/31/2018	1,190,000	1,257,211			
		<b>5,606,908</b>			
<b>Financials 7.5%</b>					
American General Finance Corp., Series H, 4.0%, 3/15/2011	1,417,000	1,374,214			
Capital One Bank, 4.875%, 5/15/2008	75,000	77,026			
DBS Capital Funding Corp., 144A, 7.657%*, 3/31/2049	1,330,000	1,537,953			
Duke Capital LLC, 4.302%, 5/18/2006	1,204,000	1,218,532			
Ford Motor Credit Co.: 5.8%, 1/12/2009	1,070,000	1,093,692			
6.875%, 2/1/2006	3,468,000	3,572,734			
General Electric Capital Corp., 2.8%, 1/15/2007	1,902,000	1,876,764			
General Motors Acceptance Corp.: 6.75%, 1/15/2006	1,702,000	1,746,048			
6.875%, 9/15/2011	1,075,000	1,101,652			
Goldman Sachs Group, Inc., 4.75%, 7/15/2013	945,000	935,111			
HSBC Bank USA, 5.875%, 11/1/2034 (e)	880,000	891,086			
Merrill Lynch & Co., Inc., Series C, 5.0%, 1/15/2015	1,360,000	1,354,670			
Morgan Stanley, 4.0%, 1/15/2010 (e)	945,000	934,265			
PLC Trust, Series 2003-1, 144A, 2.709%, 3/31/2006	1,426,665	1,420,644			
RAM Holdings Ltd., 144A, 6.875%, 4/1/2024	1,500,000	1,473,135			
Wells Fargo & Co., 4.2%, 1/15/2010	1,775,000	1,782,214			
		<b>22,389,740</b>			
<b>Health Care 1.2%</b>					
Health Care Service Corp., 144A, 7.75%, 6/15/2011	2,330,000	2,726,105			
Highmark, Inc., 144A, 6.8%, 8/15/2013	675,000	736,246			
					<b>3,462,351</b>
<b>Industrials 0.1%</b>					
BAE System 2001 Asset Trust, "B", Series 2001, 144A, 7.156%, 12/15/2011	282,980	307,156			
<b>Materials 0.7%</b>					
Lubrizol Corp., 6.5%, 10/1/2034	1,267,000	1,290,385			
Weyerhaeuser Co.: 6.875%, 12/15/2033	235,000	263,082			
7.125%, 7/15/2023	95,000	107,595			
7.375%, 3/15/2032	255,000	302,391			
		<b>1,963,453</b>			
<b>Telecommunication Services 1.3%</b>					
Bell Atlantic New Jersey, Inc., Series A, 5.875%, 1/17/2012	810,000	860,598			
BellSouth Corp., 5.2%, 9/15/2014	970,000	988,645			
SBC Communications, Inc., 4.125%, 9/15/2009	2,085,000	2,081,195			
		<b>3,930,438</b>			
<b>Utilities 2.9%</b>					
Centerior Energy Corp., Series B, 7.13%, 7/1/2007	1,490,000	1,608,974			
Consumers Energy Co.: Series F, 4.0%, 5/15/2010	1,655,000	1,625,554			
144A, 5.0%, 2/15/2012	1,160,000	1,180,843			
Pedernales Electric Cooperative, Series 02-A, 144A, 6.202%, 11/15/2032	1,715,000	1,845,134			
Progress Energy, Inc., 6.75%, 3/1/2006	1,000,000	1,037,656			
Xcel Energy, Inc., 7.0%, 12/1/2010	1,240,000	1,397,765			
		<b>8,695,926</b>			
<b>Total Corporate Bonds (Cost \$48,540,622)</b>					<b>49,150,536</b>
<b>Foreign Bonds — US\$ Denominated 8.4%</b>					
<b>Energy 0.3%</b>					
Petroleos Mexicanos, Series P, 9.5%, 9/15/2027	565,000	711,900			
<b>Financials 4.5%</b>					
Deutsche Telekom International Finance BV: 8.5%, 6/15/2010	255,000	303,800			
8.75%, 6/15/2030	1,955,000	2,581,495			
Endurance Specialty Holdings Ltd., 7.0%, 7/15/2034	225,000	231,682			
HSBC Capital Funding LP, 144A, 4.61%*, 12/29/2049	340,000	328,190			
Korea First Bank, 144A, 5.75%*, 3/10/2013	520,000	540,791			
Mantis Reef Ltd., 144A, 4.692%, 11/14/2008	2,720,000	2,727,940			
Mizuho Financial Group, 8.375%, 12/29/2049	2,230,000	2,443,857			

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

	Principal Amount (\$)	Value (\$)
QBE Insurance Group Ltd., 144A, 5.647%*, 7/1/2023	1,085,000	1,065,660
Westfield Capital Corp.:		
144A, 4.375%, 11/15/2010	235,000	232,430
144A, 5.125%, 11/15/2014	2,950,000	2,935,825
		<b>13,391,670</b>
<b>Industrials 1.6%</b>		
Tyco International Group SA:		
6.75%, 2/15/2011	1,900,000	2,129,497
6.875%, 1/15/2029	1,831,000	2,097,431
7.0%, 6/15/2028	539,000	626,661
		<b>4,853,589</b>
<b>Materials 0.9%</b>		
Sappi Papier Holding AG, 144A, 7.5%, 6/15/2032	620,000	721,608
Sociedad Concesionaria Autopista Central, 144A, 6.223%, 12/15/2026	1,915,000	2,009,525
		<b>2,731,133</b>
<b>Sovereign Bonds 0.2%</b>		
United Mexican States:		
Series A, 6.75%, 9/27/2034 (e)	475,000	469,062
8.375%, 1/14/2011	145,000	170,303
		<b>639,365</b>
<b>Telecommunication Services 0.9%</b>		
America Movil SA de CV, 144A, 5.75%, 1/15/2015	1,065,000	1,062,571
Telecom Italia Capital, 144A, 4.95%, 9/30/2014	910,000	891,562
Telecomunicaciones de Puerto Rico, 6.8%, 5/15/2009	625,000	665,349
		<b>2,619,482</b>
<b>Total Foreign Bonds — US\$ Denominated</b> (Cost \$24,071,893)		<b>24,947,139</b>

#### Asset Backed 7.7%

	Principal Amount (\$)	Value (\$)
<b>Automobile Receivables 2.4%</b>		
Daimler Chrysler Auto Trust, "A4", Series 2002-A, 4.49%, 10/6/2008	1,083,000	1,089,682
Drive Auto Receivables Trust, "A3", Series 2004-1, 144A, 3.5%, 8/15/2008	1,490,000	1,493,492
MMCA Automobile Trust:		
"A4", Series 2002-4, 3.05%, 11/16/2009	1,150,000	1,146,610
"A4", Series 2002-2, 4.3%, 3/15/2010	2,348,246	2,356,770
"B", Series 2002-2, 4.67%, 3/15/2010	486,668	483,227
"B", Series 2002-1, 5.37%, 1/15/2010	438,264	442,790
		<b>7,012,571</b>

#### Home Equity Loans 5.0%

	Principal Amount (\$)	Value (\$)
Chase Funding Mortgage Loan, "2A2", Series 2004-1*, 2.411%, 12/25/2033	2,110,000	2,110,038
Countrywide Asset-Backed Certificates, "N1", Series 2004-2N, 144A, 5.0%, 2/25/2035	782,440	778,575
Countrywide Home Equity Loan Trust:		
Series 2004-C, 2.62%*, 1/15/2034	1,100,545	1,098,204
"A2", Series 2004-0, 2.68%*, 2/15/2034	3,948,727	3,948,040
Long Beach Mortgage Loan Trust, "N1", Series 2003-4, 144A, 6.535%, 8/25/2033	109,472	109,573
Master Alternative Loan Trust, "5A1", Series 2005-1, 5.5%, 1/1/2019	790,000	812,589
Merrill Lynch Mortgage Investors, Inc., "A2B", Series 2004-HE2, 2.561%*, 8/25/2035	1,778,000	1,779,247
Novastar NIM Trust, Series 2004-N1, 144A, 4.458%, 2/26/2034	516,052	516,830
Park Place Securities NIM Trust, "A", Series 2004-MHQ1, 144A, 2.487%, 12/25/2034	1,319,477	1,319,477
Renaissance NIM Trust, "A", Series 2004-A, 144A, 4.45%, 6/25/2034	693,718	693,068
Residential Asset Securities Corp., "A16", Series 2000-KS1, 7.905%, 2/25/2031	1,648,091	1,716,965
		<b>14,882,606</b>

#### Industrials 0.3%

Delta Air Lines, Inc., "G-2", Series 2002-1, 6.417%, 7/2/2012 (e)	990,000	1,033,484
<b>Total Asset Backed (Cost \$22,991,451)</b>		<b>22,928,661</b>

#### Preferred Stocks 0.2%

Farm Credit Bank of Texas, Series 1, 7.561%, 11/29/2049 (Cost \$725,000)	725,000	745,844
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#### US Government Agency Sponsored Pass-Throughs 6.6%

<b>Federal Home Loan Mortgage Corp.:</b>		
4.0%, 5/1/2019	2,549,105	2,493,952
6.0%, 12/1/2034	1,790,000	1,849,998
<b>Federal National Mortgage Association:</b>		
4.5%, 12/1/2018	384,971	384,612
5.0%, 3/1/2034	5,039,201	5,009,640
5.5% with various maturities from 3/1/2033 until 7/1/2033 (d)	3,264,991	3,315,085
6.0% with various maturities from 7/1/2017 until 11/1/2017	1,177,258	1,235,198
6.31%, 6/1/2008	1,500,000	1,595,373
6.5% with various maturities from 3/1/2017 until 9/1/2034	2,421,989	2,544,647
7.13%, 1/1/2012	1,125,276	1,187,951

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

	Principal Amount (\$)	Value (\$)
8.0%, 9/1/2015	67,007	71,268
<b>Total US Government Agency Sponsored Pass-Throughs (Cost \$19,547,908)</b>		<b>19,687,724</b>

### Commercial and Non-Agency Mortgage-Backed Securities 11.1%

Banc of America Commercial Mortgage, Inc., "A5", Series 2004-3, 5.31%, 6/10/2039	2,830,000	2,963,563
Chase Commercial Mortgage Securities Corp., "A1", Series 2000-1, 7.656%, 4/15/2032	718,729	740,063
Citicorp Mortgage Securities, Inc., "A4", Series 2003-3, 5.5%, 3/25/2033	1,300,000	1,324,218
Citigroup Mortgage Loan Trust, Inc.:		
"1A2", Series 2004-NCM-1, 6.5%, 6/25/2034	1,583,415	1,656,154
"1CB2", Series 2004-NCM2, 6.75%, 8/25/2034	2,068,793	2,156,065
Countrywide Alternative Loan Trust:		
"1A1", Series 2004-J1, 6.0%, 2/25/2034	532,660	540,023
"7A1", Series 2004-J2, 6.0%, 12/25/2033	625,564	640,421
First Union-Lehman Brothers Commercial Mortgage, "A3", Series 1997-C1, 7.38%, 4/18/2029	1,745,245	1,857,034
GMAC Commercial Mortgage Securities, Inc., "A3", Series 1997-C1, 6.869%, 7/15/2029	1,390,121	1,470,670
GS Mortgage Securities Corp. II, "C", Series 1998-C1, 6.91%, 10/18/2030	1,260,000	1,378,987
Master Adjustable Rate Mortgages Trust, "9A2", Series 2004-5, 4.88%*, 6/25/2032	1,865,000	1,870,401
Master Alternative Loan Trust:		
"3A1", Series 2004-5, 6.5%, 6/25/2034	79,792	83,059
"5A1", Series 2004-3, 6.5%, 3/25/2034	834,601	866,681
"8A1", Series 2004-3, 7.0%, 4/25/2034	627,143	655,167
Master Asset Securitization Trust, "8A1", Series 2003-6, 5.5%, 7/25/2033	1,053,991	1,062,555
Merrill Lynch Mortgage Investors, Inc., "D", Series 1996-C1, 7.42%, 4/25/2028	2,130,000	2,202,933
Park Place Securities NIM Trust, "B", Series 2004-MHQ1, 144A, 3.474%, 12/25/2034	2,090,000	2,090,000
Residential Asset Securitization Trust, "A1", Series 2003-A11, 4.25%, 11/25/2033	2,164,835	2,169,463
TIAA Real Estate CDO Ltd., "A2", Series 2001-C1A, 144A, 6.3%, 6/19/2021	1,931,107	2,049,584
Wachovia Bank Commercial Mortgage Trust, "A5", Series 2004-C11, 5.215%, 1/15/2041	853,000	878,211
Washington Mutual:		
"2A1", Series 2002-58, 4.5%, 1/25/2018	847,038	850,127
"4A", Series 2004-CB2, 6.5%, 8/25/2034	272,891	285,427

	Principal Amount (\$)	Value (\$)
Washington Mutual Mortgage Securities Corp., "A7, Series 2004-AR9, 4.26%*, 8/25/2034	1,393,000	1,394,097
Wells Fargo Mortgage Backed Securities Trust:		
"1A6", Series 2003-1, 4.5%, 2/25/2018	697,914	701,083
"1A1", Series 2003-6, 5.0%, 6/25/2018	1,313,436	1,324,929
<b>Total Commercial and Non-Agency Mortgage-Backed Securities (Cost \$33,461,281)</b>		<b>33,210,915</b>

### Collateralized Mortgage Obligations 24.0%

Fannie Mae Grantor Trust:		
"1A3", Series 2004-T2, 7.0%, 11/25/2043	599,913	635,719
"1A3", Series 2004-T3, 7.0%, 2/25/2044	300,217	318,135
Fannie Mae Whole Loan:		
"2A", Series 2002-W1, 7.5%, 2/25/2042	1,042,175	1,113,367
"5A", Series 2004-W2, 7.5%, 3/25/2044	1,735,182	1,857,381
Federal Home Loan Mortgage Corp.:		
"AU", Series 2759, 3.5%, 5/15/2019	1,313,000	1,309,386
"EK", Series 2773, 3.5%, 5/15/2010	1,274,000	1,275,987
"QC", Series 2694, 3.5%, 9/15/2020	2,290,000	2,275,892
"LB", Series 2755, 4.0%, 9/15/2023	1,970,000	1,973,498
"NB", Series 2750, 4.0%, 12/15/2022	2,839,000	2,835,240
"XG", Series 2737, 4.0%, 11/15/2022	1,050,000	1,049,033
"LC", Series 2682, 4.5%, 7/15/2032	1,690,000	1,632,944
"ME", Series 2691, 4.5%, 4/15/2032	1,911,000	1,828,648
"ON", Series 2776, 4.5%, 11/15/2032	1,410,000	1,342,274
"QH", Series 2694, 4.5%, 3/15/2032	2,500,000	2,408,238
"1A2B", Series T-48, 4.688%, 7/25/2022	149,297	149,305
"HG", Series 2543, 4.75%, 9/15/2028	1,628,207	1,642,144
"BG", Series 2640, 5.0%, 2/15/2032	2,060,000	2,067,793
"EG", Series 2836, 5.0%, 12/15/2032	2,770,000	2,746,601
"NE", Series 2802, 5.0%, 2/15/2033	2,640,000	2,627,135
"OE", Series 2840, 5.0%, 2/15/2033	2,780,000	2,735,517
"OL", Series 2840, 5.0%, 11/15/2022	2,335,000	2,397,704
"PD", Series 2783, 5.0%, 1/15/2033	1,283,000	1,272,328
"PD", Series 2844, 5.0%, 12/15/2032	2,765,000	2,736,505
"PE", Series 2721, 5.0%, 1/15/2023	135,000	133,546

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

	Principal Amount (\$)	Value (\$)		Principal Amount (\$)	Value (\$)
"PQ", Series 2844, 5.0%, 5/15/2023	1,616,000	1,664,835	"A2", Series 2002-T19, Grantor Trust, 7.0%, 7/25/2042	820,229	869,185
"QK", Series 2513, 5.0%, 8/15/2028	301,006	301,310	FHLMC Structured Pass-Through Securities:		
"TE", Class 2764, 5.0%, 10/15/2032	1,495,000	1,480,800	"1A2", Series T-59, 7.0%, 10/25/2043	840,479	889,857
"TE", Series 2780, 5.0%, 1/15/2033	1,785,000	1,774,776	"3A", Series T-58, 7.0%, 9/25/2043	818,748	866,849
"CH", Series 2390, 5.5%, 12/15/2016	440,000	456,296	<b>Total Collateralized Mortgage Obligations</b> (Cost \$71,469,198)		<b>71,619,904</b>
"PE", Series 2378, 5.5%, 11/15/2016	1,765,000	1,837,349			
"PE", Series 2512, 5.5%, 2/15/2022	45,000	46,727			
"TG", Series 2517, 5.5%, 4/15/2028	748,181	750,826	<b>Municipal Investments 4.8%</b>		
"BD", Series 2453, 6.0%, 5/15/2017	1,050,000	1,095,590	Brockton, MA, Core City General Obligation, Economic Development, Series A, 6.45%, 5/1/2017 (c)	1,530,000	1,701,192
"Z", Series 2173, 6.5%, 7/15/2029	333,859	350,464	Illinois, Higher Education Revenue, 7.05%, 7/1/2009 (c)	1,410,000	1,581,625
"3A", Series T-41, 7.5%, 7/25/2032	1,403,657	1,496,388	Jicarilla, NM, Sales & Special Tax Revenue, Apache Nation Revenue, 5.2%, 12/1/2013	945,000	968,880
Federal National Mortgage Association:			Los Angeles, CA, Community Redevelopment Agency, Community Redevelopment Financing Authority Revenue, Bunker Hill Project, Series B, 5.83%, 12/1/2017 (c)	2,500,000	2,563,250
"A2", Series 2003-63, 2.34%, 7/25/2044	247,513	246,893	New York, General Obligation, Environmental Facilities Corp., Series B, 4.95%, 1/1/2013 (c)	1,500,000	1,530,285
"NA", Series 2003-128, 4.0%, 8/25/2009	2,307,000	2,319,051	Oklahoma City, OK, Airport Revenue, 5.2%, 10/1/2012 (c)	1,430,000	1,472,614
"2A3", Series 2001-4, 4.16%, 6/25/2042	1,200,000	1,203,705	Oregon, School District General Obligation, School Board Association, Series A, Zero Coupon, 6/30/2017 (c)	3,830,000	1,958,049
"NE", Series 2004-52, 4.5%, 7/25/2033	1,282,000	1,218,062	Portland, OR, Industrial Development Revenue, 3.35%, 6/15/2010 (c)	1,550,000	1,489,255
"QG", Series 2004-29, 4.5%, 12/25/2032	1,420,000	1,350,349	Trenton, NJ, School District General Obligation, 4.3%, 4/1/2011 (c)	1,040,000	1,028,602
"WB", Series 2003-106, 4.5%, 10/25/2015	1,735,000	1,760,836	<b>Total Municipal Investments (Cost \$13,951,696)</b>		<b>14,293,752</b>
"A2", Series 2002-W10, 4.7%, 8/25/2042	8,964	8,957			
"2A3", Series 2003-W15, 4.71%, 8/25/2043	2,113,370	2,118,480	<b>Government National Mortgage Association 0.1%</b>		
"1A3", Series 2003-W18, 4.732%, 8/25/2043	1,160,000	1,165,593	Government National Mortgage Association, 6.0% with various maturities from 1/15/2034 until 6/20/2034 (Cost \$377,267)	367,880	381,544
"A2", Series 2002-60, 4.75%, 2/25/2044	44,895	44,817			
"KY", Series 2002-55, 4.75%, 4/25/2028	132,708	132,497	<b>US Government Backed 17.5 %</b>		
"KH", Series 2003-92, 5.0%, 3/25/2032	1,100,000	1,087,975	US Treasury Bond:		
"MC", Series 2002-56, 5.5%, 9/25/2017	947,587	975,562	6.0%, 2/15/2026 (e)	10,386,000	11,897,246
"PG", Series 2002-3, 5.5%, 2/25/2017	500,000	514,082	7.25%, 5/15/2016 (e)	4,682,000	5,860,548
"QC", Series 2002-11, 5.5%, 3/25/2017	640,000	665,482	US Treasury Note:		
"PM", Series 2001-60, 6.0%, 3/25/2030	366,829	371,571	1.5%, 3/31/2006 (e)	4,000,000	3,934,688
"VD", Series 2002-56, 6.0%, 4/25/2020	214,624	218,317	3.125%, 10/15/2008 (e)	207,000	204,793
"A2", Series 1998-M6, 6.32%, 8/15/2008	1,124,756	1,201,071	3.25%, 1/15/2013 (e)	28,575,000	28,327,198
"HM", Series 2002-36, 6.5%, 12/25/2029	86,159	87,189	4.25%, 11/15/2013 (e)	1,995,000	2,007,546
"1A2", Series 2003-W3, 7.0%, 8/25/2042	645,327	683,843	<b>Total US Government Backed (Cost \$52,667,724)</b>		<b>52,232,019</b>

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

	Shares	Value (\$)		% of Net Assets	Value (\$)
<b>Securities Lending Collateral 19.0 %</b>			<b>Total Investment Portfolio</b>		
Daily Assets Fund Institutional, 2.25% (f) (g) (Cost \$56,591,078)	56,591,078	56,591,078	(Cost \$354,952,935) (a)	119.4	356,346,933
			<b>Other Assets and Liabilities, Net</b>	(19.4)	<b>(57,959,700)</b>
			<b>Net Assets</b>	100.0	<b>298,387,233</b>
<b>Cash Equivalents 3.5 %</b>					
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$10,557,817)	10,557,817	10,557,817			

### Notes to Scudder Fixed Income 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, 2004.

(a) The cost for federal income tax purposes was \$354,991,184. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$1,355,749. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$3,274,728 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$1,918,979.

(b) Scudder Cash Management QP Trust is 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:

Insurance Coverage		As a % of Total Investment Portfolio
AMBAC	AMBAC Assurance Corp.	1.3%
FGIC	Financial Guaranty Insurance Company	1.7%
FSA	Financial Security Assurance	0.7%

(d) Mortgage dollar roll included.

(e) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004, amounted to \$55,585,732, which is 18.6% of total net assets.

(f) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.

(g) Represents collateral held in connection with securities lending.

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

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, Federal Home Loan Mortgage Corp. 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, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$287,804,040) — including \$55,585,732 of securities loaned	\$ 289,198,038
Investment in Daily Assets Fund Institutional (cost \$56,591,078)*	56,591,078
Investment in Scudder Cash Management QP Trust (cost \$10,557,817)	10,557,817
Total investments in securities, at value (cost \$354,952,935)	356,346,933
Cash	73,857
Receivable for investments sold	934,790
Interest receivable	2,459,749
Receivable for Portfolio shares sold	1,478,427
Other assets	11,167
Total assets	361,304,923

### Liabilities

Payable for investments purchased	3,659,384
Payable for investments purchased — mortgage dollar rolls	2,263,450
Payable upon return of securities loaned	56,591,078
Deferred mortgage dollar roll income	2,521
Accrued management fee	145,855
Payable for Portfolio shares redeemed	140,575
Other accrued expenses and payables	114,827
Total liabilities	62,917,690
<b>Net assets, at value</b>	<b>\$ 298,387,233</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	9,524,556
Net unrealized appreciation (depreciation) on investments	1,393,998
Accumulated net realized gain (loss)	2,647,909
Paid-in capital	284,820,770
<b>Net assets, at value</b>	<b>\$ 298,387,233</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$210,037,506 ÷ 17,397,738 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.07</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$88,349,727 ÷ 7,335,272 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.04</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Dividends	\$ 47,575
Interest	11,599,430
Interest — Scudder Cash Management QP Trust	15,353
Mortgage dollar roll income	172,308
Securities lending income, including income from Daily Assets Fund Institutional	24,595
Total Income	11,859,261
Expenses:	
Management fee	1,589,597
Custodian fees	23,243
Distribution service fees (Class B)	175,814
Record keeping fees (Class B)	91,731
Auditing	42,156
Legal	18,958
Trustees' fees and expenses	3,041
Reports to shareholders	50,572
Other	16,201
Total expenses, before expense reductions	2,011,313
Expense reductions	(4,070)
Total expenses, after expense reductions	2,007,243
<b>Net investment income</b>	<b>9,852,018</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	2,613,421
Net unrealized appreciation (depreciation) during the period on investments	(740,835)
<b>Net gain (loss) on investment transactions</b>	<b>1,872,586</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 11,724,604</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 9,852,018	\$ 9,005,497
Net realized gain (loss) on investment transactions	2,613,421	5,632,277
Net unrealized appreciation (depreciation) on investment transactions during the period	(740,835)	(3,106,535)
Net increase (decrease) in net assets resulting from operations	11,724,604	11,531,239
Distributions to shareholders from:		
Net investment income		
Class A	(6,899,791)	(7,642,555)
Class B	(1,766,032)	(352,039)
Net realized gains		
Class A	(3,369,665)	—
Class B	(976,642)	—
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	43,408,606	33,556,029
Reinvestment of distributions	10,269,456	7,642,555
Cost of shares redeemed	(42,555,105)	(59,678,316)
Net increase (decrease) in net assets from Class A share transactions	11,122,957	(18,479,732)
<b>Class B</b>		
Proceeds from shares sold	46,084,279	45,408,382
Reinvestment of distributions	2,742,674	352,039
Cost of shares redeemed	(6,180,393)	(2,824,214)
Net increase (decrease) in net assets from Class B share transactions	42,646,560	42,936,207
<b>Increase (decrease) in net assets</b>	<b>52,481,991</b>	<b>27,993,120</b>
Net assets at beginning of period	245,905,242	217,912,122
Net assets at end of period (including undistributed net investment income of \$9,524,556 and \$8,499,174, respectively)	<b>\$ 298,387,233</b>	<b>245,905,242</b>
<b>Other Information</b>		
<b>Class A</b>		
Shares outstanding at beginning of period	16,493,825	18,049,005
Shares sold	3,610,180	2,793,008
Shares issued to shareholders in reinvestment of distributions	865,161	650,984
Shares redeemed	(3,571,428)	(4,999,172)
Net increase (decrease) in Portfolio shares	903,913	(1,555,180)
Shares outstanding at end of period	<b>17,397,738</b>	<b>16,493,825</b>
<b>Class B</b>		
Shares outstanding at beginning of period	3,731,351	144,625
Shares sold	3,887,722	3,792,922
Shares issued to shareholders in reinvestment of distributions	230,865	29,986
Shares redeemed	(514,666)	(236,182)
Net increase (decrease) in Portfolio shares	3,603,921	3,586,726
Shares outstanding at end of period	<b>7,335,272</b>	<b>3,731,351</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001 <sup>a</sup>	2000 <sup>b</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 12.16</b>	<b>\$ 11.98</b>	<b>\$ 11.48</b>	<b>\$ 11.45</b>	<b>\$ 11.00</b>
<i>Income from investment operations:</i>					
Net investment income <sup>c</sup>	.50	.45	.53	.62	.69
Net realized and unrealized gain (loss) on investment transactions	.05	.14	.37	.01	.36
<b>Total from investment operations</b>	<b>.55</b>	<b>.59</b>	<b>.90</b>	<b>.63</b>	<b>1.05</b>
<i>Less distributions from:</i>					
Net investment income	(.43)	(.41)	(.40)	(.60)	(.60)
Net realized gains on investment transactions	(.21)	—	—	—	—
<b>Total distributions</b>	<b>(.64)</b>	<b>(.41)</b>	<b>(.40)</b>	<b>(.60)</b>	<b>(.60)</b>
<b>Net asset value, end of period</b>	<b>\$ 12.07</b>	<b>\$ 12.16</b>	<b>\$ 11.98</b>	<b>\$ 11.48</b>	<b>\$ 11.45</b>
Total Return (%)	4.53	5.13	8.01	5.71	9.90
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	210	201	216	134	78
Ratio of expenses before expense reductions (%)	.66	.66	.65	.64	.68
Ratio of expenses after expense reductions (%)	.66	.66	.65	.64	.67
Ratio of net investment income (loss) (%)	4.18	3.75	4.57	5.46	6.36
Portfolio turnover rate (%)	185 <sup>d</sup>	229 <sup>d</sup>	267	176	311

<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 portfolio turnover rate including mortgage dollar roll transactions was 204% and 265% for the year ended December 31, 2004 and December 31, 2003, respectively.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
<b>Net asset value, beginning of period</b>	<b>\$ 12.13</b>	<b>\$ 11.96</b>	<b>\$ 11.36</b>
<i>Income from investment operations:</i>			
Net investment income <sup>b</sup>	.45	.40	.27
Net realized and unrealized gain (loss) on investment transactions	.05	.15	.33
<b>Total from investment operations</b>	<b>.50</b>	<b>.55</b>	<b>.60</b>
<i>Less distributions from:</i>			
Net investment income	(.38)	(.38)	—
Net realized gains on investment transactions	(.21)	—	—
<b>Total distributions</b>	<b>(.59)</b>	<b>(.38)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 12.04</b>	<b>\$ 12.13</b>	<b>\$ 11.96</b>
Total Return (%)	4.10	4.76	5.28 <sup>**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	88	45	2
Ratio of expenses (%)	1.03	1.05	.92 <sup>*</sup>
Ratio of net investment income (loss) (%)	3.81	3.36	4.69 <sup>*</sup>
Portfolio turnover rate (%)	185 <sup>c</sup>	229 <sup>c</sup>	267

<sup>a</sup> For the period from July 1, 2002 (commencement of operations 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 204% and 265% for the year ended December 31, 2004 and December 31, 2003, respectively.

<sup>\*</sup> Annualized

<sup>\*\*</sup> Not annualized



## Scudder Global Blue Chip Portfolio

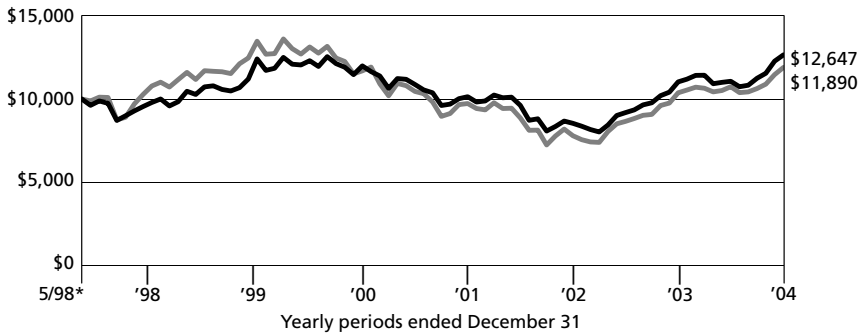
All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. All of these factors may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

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 Portfolio would be lower.

### Growth of an Assumed \$10,000 Investment in Scudder Global Blue Chip Portfolio from 5/5/1998 to 12/31/2004

- 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. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

### Comparative Results

Scudder Global Blue Chip Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$11,476	\$12,483	\$10,196	\$12,647
	Average annual total return	14.76%	7.67%	.39%	3.59%
MSCI World Index					
	Growth of \$10,000	\$11,472	\$12,233	\$8,834	\$11,890
	Average annual total return	14.72%	6.95%	-2.45%	2.63%
Scudder Global Blue Chip Portfolio		1-Year	Life of Class**		
Class B	Growth of \$10,000	\$11,433	\$13,234		
	Average annual total return	14.33%	11.85%		
MSCI World Index					
	Growth of \$10,000	\$11,472	\$13,416		
	Average annual total return	14.72%	12.47%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 5, 1998. Index returns begin April 30, 1998.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## Scudder Global Blue Chip Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,143.70	\$ 1,141.50
Expenses Paid per \$1,000*	\$ 8.24	\$ 10.26
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,017.52	\$ 1,015.62
Expenses Paid per \$1,000*	\$ 7.76	\$ 9.66

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — Scudder Global Blue Chip Portfolio	1.53%	1.90%

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

## Scudder Global Blue Chip Portfolio

Amid a positive environment for the global equity markets, the portfolio returned 14.76% for the year ended December 31, 2004 (Class A shares, unadjusted for contract charges), in line with the 14.72% return of the MSCI World Index. Performance was helped by overweights in energy and materials as well as underweights in health care and technology. We also added value to the portfolio through stock selection in a number of sectors, including health care, financials and utilities. However, the positive impact from these factors was offset by underperforming stocks within the consumer sector.

We continue to invest in companies that we believe will benefit from longer-term themes in the world economy. There are currently 10 themes at work in the portfolio. All produced a positive return in 2004 with the exception of the theme called "Safety Assets," which invests in gold stocks. The top-performing theme was "New Annuities," which invests in companies with assets that can generate predictable long-term returns. Our most notable shift during the year was to take profits by reducing the portfolio's weighting in commodity-related stocks. We maintained its weighting in energy, however, based on our belief that the sector has further upside.

The key factors driving the markets in 2004 were interest rates, the dollar and China. All of these were important components of the portfolio's performance, and we will be watching for key shifts in 2005. Overall, we continue to believe that at a time of continued uncertainty in the markets, our emphasis on longer-term trends will help the portfolio deliver steady returns.

Oliver Kratz

Steve M. Wreford

Co-Managers

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. All of these factors may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Morgan Stanley Capital International (MSCI) World Index is an unmanaged, capitalization-weighted measure of stock markets around the world, including North America, Europe, Australia and Asia. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates. Index returns assume reinvested dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## Scudder Global Blue Chip Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	89%	97%
Cash Equivalents	8%	3%
Exchange Traded Fund	2%	—
Preferred Stocks	1%	—
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	21%	17%
Materials	16%	19%
Energy	13%	14%
Industrials	12%	7%
Information Technology	11%	10%
Health Care	9%	8%
Utilities	7%	6%
Consumer Discretionary	6%	10%
Consumer Staples	3%	2%
Telecommunication Services	2%	7%
	100%	100%

<b>Geographical Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Continental Europe	30%	19%
United States	28%	34%
Asia (excluding Japan)	13%	11%
Japan	11%	9%
United Kingdom	7%	10%
Canada	6%	5%
Latin America	3%	6%
Africa	2%	3%
Australia	—	3%
	100%	100%

*Asset allocation, sector diversification and geographical diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 38. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Global Blue Chip Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 88.7%</b>					
<b>Australia 0.3%</b>					
Alumina Ltd. (Cost \$126,894)	48,800	227,231			
<b>Austria 1.5%</b>					
Erste Bank der oesterreichischen Sparkassen AG	6,200	331,195			
Wienerberger AG	16,600	793,108			
(Cost \$845,372)		<b>1,124,303</b>			
<b>Brazil 1.2%</b>					
Aracruz Celulose SA "B" (ADR)	10,900	410,930			
Companhia Vale do Rio Doce (ADR)	17,200	498,972			
(Cost \$441,014)		<b>909,902</b>			
<b>Canada 5.1%</b>					
Canadian National Railway Co.*	23,200	1,414,868			
EnCana Corp.	15,899	907,642			
Goldcorp, Inc.*	36,600	551,680			
Meridian Gold, Inc.*	32,700	620,622			
Placer Dome, Inc.*	20,600	388,222			
(Cost \$2,098,359)		<b>3,883,034</b>			
<b>China 0.9%</b>					
China Petroleum & Chemical Corp. "H" (Cost \$576,393)	1,580,000	645,400			
<b>France 4.2%</b>					
Carrefour SA	16,002	762,145			
Societe Generale	5,339	540,286			
Total SA	8,405	1,835,916			
(Cost \$2,646,842)		<b>3,138,347</b>			
<b>Germany 11.9%</b>					
Allianz AG (Registered)	10,299	1,366,294			
BASF AG (d)	25,950	1,869,444			
Commerzbank AG* (d)	58,320	1,201,755			
Deutsche Boerse AG (d)	7,679	462,181			
E.ON AG (d)	21,239	1,935,962			
Schering AG (d)	11,600	867,359			
Volkswagen AG	28,183	1,277,563			
(Cost \$6,593,907)		<b>8,980,558</b>			
<b>Hong Kong 3.1%</b>					
China Mobile (Hong Kong) Ltd.	145,600	493,594			
Denway Motors Ltd.	812,000	289,899			
Fountain Set (Holdings) Ltd.	908,000	589,937			
Hutchison Whampoa Ltd.	100,000	935,968			
(Cost \$2,160,807)		<b>2,309,398</b>			
<b>India 1.0%</b>					
Oil & Natural Gas Corp. Ltd.	9,600	180,991			
Reliance Industries Ltd.	44,000	540,308			
(Cost \$693,189)		<b>721,299</b>			
<b>Israel 0.4%</b>					
Teva Pharmaceutical Industries Ltd. (ADR) (Cost \$308,214)	10,600	316,516			
<b>Italy 2.4%</b>					
Capitalia SpA	169,300	775,508			
Enel SpA	56,500	555,247			
Mediobanca SpA	28,200	456,520			
(Cost \$1,492,530)		<b>1,787,275</b>			
<b>Japan 10.2%</b>					
Daiwa Securities Group, Inc.	62,000	447,741			
FANUC Ltd.	21,000	1,373,085			
Japan Retail Fund Investment Corp. (REIT)	24	202,596			
Komatsu Ltd.	165,000	1,154,533			
Mitsubishi Estate Co., Ltd.	77,000	901,727			
Mitsubishi Tokyo Financial Group, Inc.	38	385,674			
Mitsui Fudosan Co., Ltd.	107,000	1,300,039			
Mizuho Financial Group, Inc.	119	599,239			
Nomura Holdings, Inc.	93,000	1,355,928			
(Cost \$6,699,056)		<b>7,720,562</b>			
<b>Korea 2.8%</b>					
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	20,800	309,428			
LG Electronics, Inc.	13,200	817,349			
Samsung Electronics Co., Ltd.	2,310	1,005,270			
(Cost \$1,884,767)		<b>2,132,047</b>			
<b>Malaysia 0.3%</b>					
Resorts World Berhad (Cost \$211,544)	81,200	213,684			
<b>Mexico 1.4%</b>					
Cemex SA de CV (ADR)	10,700	389,694			
Fomento Economico Mexicano SA de CV (ADR)	8,200	431,402			
Grupo Televisa SA (ADR)	4,100	248,050			
(Cost \$826,238)		<b>1,069,146</b>			
<b>Peru 1.0%</b>					
Compania de Minas Buenaventura SA (ADR) (Cost \$595,582)	34,300	785,470			
<b>Russia 1.8%</b>					
Gazprom "S" (ADR) 144A (d)	23,000	823,600			
LUKOIL (ADR)	4,500	551,250			
(Cost \$840,793)		<b>1,374,850</b>			
<b>Singapore 1.8%</b>					
DBS Group Holdings Ltd.	62,000	611,492			
Singapore Telecommunications Ltd.	519,060	756,777			
(Cost \$1,072,310)		<b>1,368,269</b>			
<b>South Africa 1.3%</b>					
Gold Fields Ltd.	49,100	605,715			
Impala Platinum Holdings Ltd. (ADR)	17,700	376,228			
(Cost \$773,476)		<b>981,943</b>			
<b>Sweden 1.8%</b>					
Skandinaviska Enskilda Banken AB (Cost \$1,081,446)	70,600	1,365,170			

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

	Shares	Value (\$)
<b>Switzerland 2.9%</b>		
ABB Ltd.*	101,358	566,022
Credit Suisse Group	11,425	480,270
Nestle SA (Registered)	1,527	399,510
Novartis AG (Registered)	14,463	728,810
(Cost \$1,889,687)		<b>2,174,612</b>
<b>Taiwan 1.8%</b>		
Hon Hai Precision Industry Co., Ltd.	132,249	613,462
Quanta Computer, Inc.	300,417	540,352
Taiwan Semiconductor Manufacturing Co., Ltd. (ADR)	27,042	229,587
(Cost \$1,243,503)		<b>1,383,401</b>
<b>Thailand 0.5%</b>		
Bangkok Bank PCL (Foreign Registered)* (Cost \$312,623)	125,600	368,556
<b>United Kingdom 6.0%</b>		
Anglo American PLC	24,231	573,140
GlaxoSmithKline PLC	55,355	1,298,695
Lonmin PLC	27,333	481,211
National Grid Transco PLC	89,984	856,892
Rio Tinto PLC	14,318	421,409
RT Group PLC*	54,206	11,448
William Morrison Supermarkets PLC	218,828	869,665
(Cost \$4,053,674)		<b>4,512,460</b>
<b>United States 23.1%</b>		
Affiliated Computer Services, Inc. "A"*	11,200	674,128
AFLAC, Inc.	26,800	1,067,712
Anadarko Petroleum Corp.	15,300	991,593
AutoZone, Inc.*	4,500	410,895
Avocent Corp.*	12,500	506,500
Caremark Rx, Inc.*	12,300	484,989
Caterpillar, Inc.	11,500	1,121,365
ConocoPhillips	16,400	1,424,012
Dean Foods Co.*	17,000	560,150
Devon Energy Corp.	15,300	595,476
Eaton Corp.	5,500	397,980
Equity Residential (REIT)	11,900	430,542
Hewlett-Packard Co.	65,300	1,369,341
Medicines Co.*	14,600	420,480
Microsoft Corp.	38,300	1,022,993

	Shares	Value (\$)
Monsanto Co.	32,400	1,799,820
Newmont Mining Corp.	12,500	555,125
Pfizer, Inc.	48,300	1,298,787
Schlumberger Ltd.	13,500	903,825
VERITAS Software Corp.*	22,600	645,230
Wyeth	18,700	796,433
(Cost \$14,656,440)		<b>17,477,376</b>

#### Venezuela 0.0%

Compania Anonima Nacional Telefonos de Venezuela (ADR) (Cost \$35,275)	1,700	38,063
<b>Total Common Stocks (Cost \$54,159,935)</b>		<b>67,008,872</b>

#### Preferred Stocks 0.8%

<b>Germany</b>		
Porsche AG (Cost \$645,846)	1,000	638,168

#### Exchange Traded Funds 2.1%

iShares MSCI Malaysia Index Fund	11,700	83,655
iShares Nasdaq Biotechnology Index Fund* (d)	19,900	1,500,460
<b>Total Exchange Traded Funds (Cost \$1,484,286)</b>		<b>1,584,115</b>

#### Securities Lending Collateral 8.8%

Daily Assets Fund Institutional, 2.25% (c) (e) (Cost \$6,643,847)	6,643,847	6,643,847
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#### Cash Equivalents 8.4%

Scudder Cash Management QP Trust, 2.24% (b) (Cost \$6,382,314)	6,382,314	6,382,314
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	% of Net Assets	Value (\$)
<b>Total Investment Portfolio</b> (Cost \$69,316,228) (a)	108.8	82,257,316
<b>Other Assets and Liabilities, Net</b>	(8.8)	(6,684,153)
<b>Net Assets</b>	100.0	75,573,163

#### Notes to Scudder Global Blue Chip Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$69,467,378. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$12,789,938. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$13,964,276 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$1,174,338.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Daily Assets Fund Institutional, an affiliated fund, is also managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (d) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$6,351,889, which is 8.4% of total net assets.
- (e) Represents collateral held in connection with securities lending.

ADR: American Depositary Receipts

REIT: Real Estate Investment Trust

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

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$56,290,067) — including \$6,351,889 of securities loaned	\$ 69,231,155
Investment in Daily Assets Fund Institutional (cost \$6,643,847)*	6,643,847
Investment in Scudder Cash Management QP Trust (cost \$6,382,314)	6,382,314
<b>Total investments in securities, at value (cost \$69,316,228)</b>	<b>82,257,316</b>
Cash	1,336
Foreign currency, at value (cost \$60,569)	64,671
Receivables for investments sold	793,632
Dividends receivable	81,978
Interest receivable	8,053
Receivable for Portfolio shares sold	28,292
Foreign taxes recoverable	10,210
Other assets	7,566
<b>Total assets</b>	<b>83,253,054</b>

### Liabilities

Payable for investments purchased	808,096
Payable upon return of securities loaned	6,643,847
Payable for Portfolio shares redeemed	68,054
Accrued management fee	61,268
Other accrued expenses and payables	98,626
<b>Total liabilities</b>	<b>7,679,891</b>
<b>Net assets, at value</b>	<b>\$ 75,573,163</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	102,166
Net unrealized appreciation (depreciation) on:	
Investments	12,941,088
Foreign currency related transactions	6,433
Accumulated net realized gain (loss)	(4,812,938)
Paid-in capital	67,336,414
<b>Net assets, at value</b>	<b>\$ 75,573,163</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$63,027,127 ÷ 5,350,985 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.78</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$12,546,036 ÷ 1,064,827 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.78</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$86,153)	\$ 1,100,189
Interest — Scudder Cash Management QP Trust	41,410
Securities lending income, including income from Daily Assets Fund Institutional	29,814
<b>Total Income</b>	<b>1,171,413</b>
Expenses:	
Management fee	647,402
Custodian and accounting fees	190,058
Distribution service fees (Class B)	23,461
Record keeping fees (Class B)	12,031
Auditing	50,584
Legal	16,830
Trustees' fees and expenses	1,909
Reports to shareholders	13,947
Other	11,575
<b>Total expenses, before expense reductions</b>	<b>967,797</b>
Expense reductions	(1,159)
<b>Total expenses, after expense reductions</b>	<b>966,638</b>
<b>Net investment income (loss)</b>	<b>204,775</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	5,258,185
Foreign currency related transactions	(17,858)
	5,240,327
Net unrealized appreciation (depreciation) during the period on:	
Investments	3,765,804
Foreign currency related transactions	(116)
	3,765,688
<b>Net gain (loss) on investment transactions</b>	<b>9,006,015</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 9,210,790</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 204,775	\$ 469,875
Net realized gain (loss) on investment transactions	5,240,327	(902,561)
Net unrealized appreciation (depreciation) on investment transactions during the period	3,765,688	13,515,142
Net increase (decrease) in net assets resulting from operations	9,210,790	13,082,456
Distributions to shareholders from:		
Net investment income		
Class A	(686,309)	(164,671)
Class B	(57,902)	(1,208)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	10,246,696	14,111,779
Reinvestment of distributions	686,309	164,671
Cost of shares redeemed	(9,557,336)	(14,079,045)
Net increase (decrease) in net assets from Class A share transactions	1,375,669	197,405
<b>Class B</b>		
Proceeds from shares sold	5,449,125	5,128,199
Reinvestment of distributions	57,902	1,208
Cost of shares redeemed	(572,691)	(196,055)
Net increase (decrease) in net assets from Class B share transactions	4,934,336	4,933,352
<b>Increase (decrease) in net assets</b>	<b>14,776,584</b>	<b>18,047,334</b>
Net assets at beginning of period	60,796,579	42,749,245
Net assets at end of period (including undistributed net investment income of \$102,166 and \$671,339, respectively)	<b>\$ 75,573,163</b>	<b>\$ 60,796,579</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	5,262,148	5,267,978
Shares sold	941,848	1,644,533
Shares issued to shareholders in reinvestment of distributions	64,503	21,782
Shares redeemed	(917,514)	(1,672,145)
Net increase (decrease) in Portfolio shares	88,837	(5,830)
Shares outstanding at end of period	<b>5,350,985</b>	<b>5,262,148</b>
<b>Class B</b>		
Shares outstanding at beginning of period	588,861	24,654
Shares sold	522,896	585,383
Shares issued to shareholders in reinvestment of distributions	5,427	160
Shares redeemed	(52,357)	(21,336)
Net increase (decrease) in Portfolio shares	475,966	564,207
Shares outstanding at end of period	<b>1,064,827</b>	<b>588,861</b>

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



# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 10.39	\$ 8.08	\$ 9.64	\$ 11.81	\$ 12.37
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.04	.09	.07	.08	.03
Net realized and unrealized gain (loss) on investment transactions	1.48	2.25	(1.57)	(1.90)	(.44)
<b>Total from investment operations</b>	<b>1.52</b>	<b>2.34</b>	<b>(1.50)</b>	<b>(1.82)</b>	<b>(.41)</b>
<i>Less distributions from:</i>					
Net investment income	(.13)	(.03)	(.06)	—	—
Net realized gains on investment transactions	—	—	—	(.35)	(.15)
<b>Total distributions</b>	<b>(.13)</b>	<b>(.03)</b>	<b>(.06)</b>	<b>(.35)</b>	<b>(.15)</b>
<b>Net asset value, end of period</b>	<b>\$ 11.78</b>	<b>\$ 10.39</b>	<b>\$ 8.08</b>	<b>\$ 9.64</b>	<b>\$ 11.81</b>
Total Return (%)	14.76	29.13 <sup>c</sup>	(15.77)	(15.48)	(3.36) <sup>c</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	63	55	43	44	33
Ratio of expenses before expense reductions (%)	1.44	1.48	1.32	1.24	1.78
Ratio of expenses after expense reductions (%)	1.43	1.17	1.32	1.24	1.50
Ratio of net investment income (loss) (%)	.38	1.02	.79	.76	.28
Portfolio turnover rate (%)	81	65	41	52	54

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period 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.

<sup>c</sup> Total returns would have been lower had certain expenses not been reduced.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 10.38	\$ 8.06	\$ 8.98
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.00 <sup>d</sup>	.04	.02
Net realized and unrealized gain (loss) on investment transactions	1.48	2.29	(.94)
<b>Total from investment operations</b>	<b>1.48</b>	<b>2.33</b>	<b>(.92)</b>
<i>Less distributions from:</i>			
Net investment income	(.08)	(.01)	—
<b>Net asset value, end of period</b>	<b>\$ 11.78</b>	<b>\$ 10.38</b>	<b>\$ 8.06</b>
Total Return (%)	14.33	28.96 <sup>c</sup>	(10.24) <sup>**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	13	6	.2
Ratio of expenses before expense reductions (%)	1.84	1.87	1.60*
Ratio of expenses after expense reductions (%)	1.83	1.64	1.60*
Ratio of net investment income (loss) (%)	.02	.55	.49*
Portfolio turnover rate (%)	81	65	41

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

<sup>c</sup> Total returns would have been lower had certain expenses not been reduced.

<sup>d</sup> Amount is less than \$.005 per share.

\* Annualized \*\* Not annualized

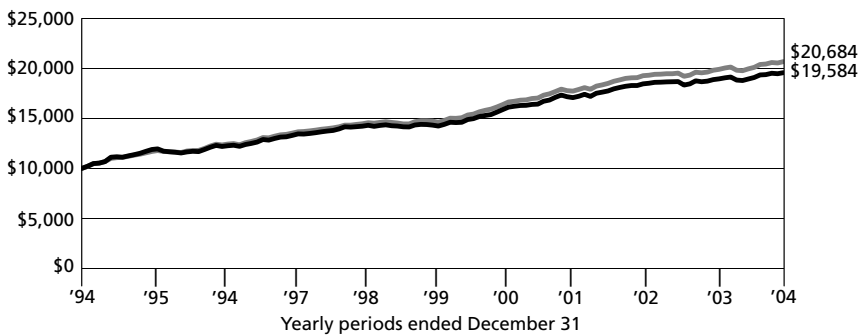
## Scudder Government & Agency Securities Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

The guarantee relates only to the prompt payment of principal and interest and does not remove market risks. Additionally, yields will fluctuate in response to changing interest rates and may be affected by the prepayment of mortgage-backed securities. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in Scudder Government & Agency Securities Portfolio from 12/31/1994 to 12/31/2004

- Scudder Government & Agency Securities Portfolio — Class A
- Lehman Brothers GNMA Index



The Lehman Brothers GNMA Index is an unmanaged market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder Government & Agency Securities Portfolio		1-Year	3-Year	5-Year	10-Year
Class A	Growth of \$10,000	\$10,375	\$11,464	\$13,668	\$19,584
	Average annual total return	3.75%	4.66%	6.45%	6.95%
Lehman Brothers GNMA Index					
Growth of \$10,000		\$10,435	\$11,666	\$14,027	\$20,684
Average annual total return		4.35%	5.27%	7.00%	7.54%
Scudder Government & Agency Securities Portfolio		1-Year		Life of Class*	
Class B	Growth of \$10,000	\$10,336		\$10,917	
	Average annual total return	3.36%		3.57%	
Lehman Brothers GNMA Index					
Growth of \$10,000		\$10,435		\$11,180	
Average annual total return		4.35%		4.56%	

The growth of \$10,000 is cumulative.

\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## Scudder Government & Agency Securities Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,033.80	\$ 1,031.60
Expenses Paid per \$1,000*	\$ 3.12	\$ 5.06
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,022.14	\$ 1,020.22
Expenses Paid per \$1,000*	\$ 3.10	\$ 5.04

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — Scudder Government & Agency Securities Portfolio	.61%	.99%

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

## Scudder Government & Agency Securities Portfolio

The year 2004 produced a more positive environment for mortgage securities than the previous year. Several factors were responsible: (1) interest rates were relatively stable, and any increases — mainly on the short end of the yield curve — were carefully communicated in advance by the Federal Reserve; (2) job growth rose to a respectable average level per month, beginning with the March nonfarm payroll report, and is now in line with economists' forecasts; (3) significant US dollar weakness prompted foreign central banks, primarily in Asia, to intervene and purchase dollars in significant volume to support the value of their own currencies. These actions dampened what might otherwise have been larger long-term interest rate increases during the year; and (4) the net supply of mortgages declined drastically — from \$230 billion in 2003 to \$40 billion in 2004 while demand remained stable.

During the 12-month period ended December 31, 2004, the portfolio provided a total return of 3.75% (Class A shares, unadjusted for contract charges) compared with the 4.35% return of its benchmark, the Lehman Brothers GNMA Index. The portfolio's return also outperformed the 3.61% return of the average peer in its Lipper category.

During the past 12 months, we focused on mortgages that will maintain their yield in a wide variety of interest rate scenarios. The strategy has been to purchase GNMA mortgages with specifically defined geographic characteristics and smaller loan sizes. Our security selection in this sector of the market has helped performance in terms of price appreciation and a higher yield. In addition, because we anticipated a stable rate environment, we emphasized 30-year mortgages over 15-year instruments because of the yield advantage of longer-term issues. Going forward, we believe that the Fed will continue to raise short-term interest rates incrementally. If interest rates continue to be relatively stable, we expect to maintain our current strategy of emphasizing certain mortgage pool characteristics and longer-term mortgages.

Sean P. McCaffrey

William Chepolis

Co-Managers

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The government guarantee relates only to the prompt payment of principal and interest and does not remove market risks. Additionally, yields will fluctuate in response to changing interest rates and may be affected by the prepayment of mortgage-backed securities. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Lehman Brothers GNMA Index is an unmanaged market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association. Index returns 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.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## Scudder Government & Agency Securities Portfolio

<b>Asset Allocation</b>	<b>12/31/04</b>	<b>12/31/03</b>
Agencies Backed by the Full Faith and Credit of the US Government (GNMA)	57%	62%
Agencies Not Backed by the Full Faith and Credit of the US Government (FNMA, FHLMC)	21%	31%
Cash Equivalents	18%	3%
US Government Backed	4%	1%
Repurchase Agreements	—	3%
	100%	100%

<b>Credit Quality</b>	<b>12/31/04</b>	<b>12/31/03</b>
AAA	100%	100%

<b>Interest Rate Sensitivity</b>	<b>12/31/04</b>	<b>12/31/03</b>
Average Maturity	4.6 years	2.9 years
Average Duration	2.6 years	2.6 years

*Asset allocation, credit quality and interest rate sensitivity are subject to change.*

*The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Fund's credit quality does not remove market risk.*

*For more complete details about the Portfolio's investment portfolio, see page 47. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

**Scudder Government & Agency Securities Portfolio**

	Principal Amount (\$)	Value (\$)		Principal Amount (\$)	Value (\$)
<b>Agencies Backed by the Full Faith and Credit of the US Government 68.0%</b>					
Government National Mortgage Association:			7.5% with various maturities from 1/1/2027 until 11/1/2033	1,385,816	1,484,792
4.5%, 8/15/2018	3,026,940	3,044,920	8.0%, 11/1/2030	11,325	12,273
5.0% with various maturities from 7/15/2018 until 7/20/2034 (c)	38,372,263	38,394,313	8.5%, 7/1/2030	7,796	8,485
5.5% with various maturities from 12/15/2032 until 12/20/2034 (c)	83,284,492	85,074,527	Federal National Mortgage Association:		
6.0% with various maturities from 5/15/2016 until 12/20/2034 (c)	50,128,635	51,947,012	5.0% with various maturities from 10/1/2019 until 10/1/2033	6,149,849	6,231,275
6.5% with various maturities from 3/15/2014 until 8/20/2034 (c)	27,649,702	29,131,129	5.5% with various maturities from 1/1/2034 until 6/1/2034	5,203,959	5,286,216
7.0% with various maturities from 4/15/2007 until 10/15/2032	7,716,379	8,200,573	6.0% with various maturities from 7/1/2016 until 9/1/2033	3,878,105	4,037,761
7.5% with various maturities from 12/15/2013 until 7/15/2032	5,852,419	6,282,828	6.5% with various maturities from 9/1/2016 until 7/1/2034 (c)	7,484,421	7,854,208
8.0% with various maturities from 12/15/2026 until 11/15/2031	1,612,228	1,750,673	7.0% with various maturities from 9/1/2013 until 7/1/2034	1,694,428	1,795,572
8.5% with various maturities from 5/15/2016 until 12/15/2030	204,983	224,605	7.5% with various maturities from 6/1/2015 until 3/1/2032	3,701,670	3,965,391
9.0%, 8/15/2027	22,317	25,170	8.0%, 12/1/2024	29,854	32,496
9.5% with various maturities from 6/15/2013 until 12/15/2022	73,681	82,967	Tennessee Valley Authority, 5.625%, 1/18/2011	6,000,000	6,445,968
10.0% with various maturities from 2/15/2016 until 3/15/2016	32,718	36,327	<b>Total Agencies Not Backed by the Full Faith and Credit of the US Government (Cost \$81,555,644)</b>		<b>81,579,022</b>
<b>Total Agencies Backed by the Full Faith and Credit of the US Government (Cost \$222,211,883)</b>		<b>224,195,044</b>	<b>US Government Backed 4.9%</b>		
<b>Agencies Not Backed by the Full Faith and Credit of the US Government 24.8%</b>			US Treasury Bill, 1.813%*, 1/20/2005 (d)	165,000	164,845
Federal Farm Credit Bank, 2.25%, 9/1/2006	7,445,000	7,333,846	US Treasury Note, 4.25%, 8/15/2014	15,825,000	15,860,242
Federal Home Loan Bank, Series 1, 3.25%, 12/17/2007	15,000,000	14,903,670	<b>Total US Government Backed (Cost \$15,957,730)</b>		<b>16,025,087</b>
Federal Home Loan Mortgage Corp.:			<b>Collateralized Mortgage Obligations 0.1%</b>		
4.5%, 5/1/2019	81,382	81,161	Federal National Mortgage Association, "IN", Series 2003-84, Interest Only, 4.5%, 4/25/2013 (Cost \$356,191)	4,608,888	330,973
5.0% with various maturities from 6/1/2033 until 6/1/2034	5,704,506	5,671,799	<b>Cash Equivalents 20.6%</b>		
5.5% with various maturities from 2/1/2017 until 4/1/2034	1,290,022	1,313,147	Scudder Cash Management QP Trust, 2.24% (b) (Cost \$67,948,768)	67,948,768	67,948,768
6.0% with various maturities from 3/1/2017 until 11/1/2033 (c)	8,821,349	9,120,822		<b>% of Net Assets</b>	<b>Value (\$)</b>
6.5%, 9/1/2032	342,357	359,489	<b>Total Investment Portfolio (Cost \$388,030,216) (a)</b>	118.4	<b>390,078,894</b>
7.0% with various maturities from 5/1/2029 until 9/1/2032	5,321,910	5,640,651	<b>Other Assets and Liabilities, Net</b>	(18.4)	<b>(60,509,199)</b>
			<b>Net Assets</b>	100.0	<b>329,569,695</b>

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

## Notes to Scudder Government & Agency Securities Portfolio of Investments

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

(a) The cost for federal income tax purposes was \$388,052,593. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$2,026,301. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$2,785,335 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$759,034.

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

(c) Mortgage dollar roll included.

(d) At December 31, 2004, these securities have been segregated, in part or in whole, to cover initial margin requirements for open futures contracts.

At December 31, 2004, open futures contracts purchased were as follows:

Futures	Expiration	Contracts	Aggregate Face Value (\$)	Market Value (\$)	Net Unrealized Appreciation/ (Depreciation) (\$)
10 year US Treasury Note	3/21/2005	23	2,558,062	2,574,563	16,501

At December 31, 2004, open futures contracts sold short were as follows:

Futures	Expiration	Contracts	Aggregate Face Value (\$)	Market Value (\$)	Net Unrealized Appreciation/ (Depreciation) (\$)
2 year US Treasury Note	3/31/2005	40	(8,399,213)	(8,383,750)	15,463
5 year US Treasury Note	3/21/2005	85	(9,298,524)	(9,310,156)	(11,632)
<b>Total net unrealized appreciation</b>					<b>3,831</b>

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, Government National Mortgage Association and Federal Home Loan Mortgage Corp. 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, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$320,081,448)	\$ 322,130,126
Investment in Scudder Cash Management QP Trust (cost \$67,948,768)	67,948,768
Total investments in securities, at value (cost \$388,030,216)	390,078,894
Receivable for investments sold	39,960,613
Interest receivable	1,909,217
Receivable for Portfolio shares sold	323,832
Other assets	10,053
<b>Total assets</b>	<b>432,282,609</b>

### Liabilities

Payable for investments purchased	30,127,633
Payable for when issued and forward delivery securities	5,971,711
Payable for investments purchased — mortgage dollar rolls	66,166,759
Deferred mortgage dollar roll income	76,424
Payable for Portfolio shares redeemed	86,162
Payable for daily variation margin on open futures contracts	11,469
Accrued management fee	156,889
Other accrued expenses and payables	115,867
<b>Total liabilities</b>	<b>102,712,914</b>
<b>Net assets, at value</b>	<b>\$ 329,569,695</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	10,896,663
Net unrealized appreciation (depreciation) on:	
Investments	2,048,678
Futures	20,332
Accumulated net realized gain (loss)	2,157,418
Paid-in capital	314,446,604
<b>Net assets, at value</b>	<b>\$ 329,569,695</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$280,091,543 ÷ 22,309,252 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.55</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$49,478,152 ÷ 3,952,379 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.52</b>
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## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Interest	\$ 12,383,702
Interest — Scudder Cash Management QP Trust	872,299
Mortgage dollar roll income	1,323,021
Securities lending income, including income from Daily Assets Fund Institutional	10,160
<b>Total Income</b>	<b>14,589,182</b>
Expenses:	
Management fee	1,908,304
Custodian fees	36,725
Distribution service fees (Class B)	112,953
Record keeping fees (Class B)	61,467
Auditing	58,595
Legal	26,856
Trustees' fees and expenses	2,572
Reports to shareholders	76,696
Other	22,019
<b>Total expenses, before expense reductions</b>	<b>2,306,187</b>
<b>Expense reductions</b>	<b>(3,977)</b>
<b>Total expenses, after expense reductions</b>	<b>2,302,210</b>
<b>Net investment income</b>	<b>12,286,972</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	1,710,270
Futures	(144,216)
Net increase from payments by affiliates and net gains (losses) realized on the disposal of investments in violations of restrictions	—
	<b>1,566,054</b>
Net unrealized appreciation (depreciation) during the period on:	
Investments	(1,062,304)
Futures	1,329
	<b>(1,060,975)</b>
<b>Net gain (loss) on investment transactions</b>	<b>505,079</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 12,792,051</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 12,286,972	\$ 12,142,038
Net realized gain (loss) on investment transactions	1,566,054	469,040
Net unrealized appreciation (depreciation) on investment transactions during the period	(1,060,975)	(3,359,459)
Net increase (decrease) in net assets resulting from operations	12,792,051	9,251,619
Distributions to shareholders from:		
Net investment income		
Class A	(8,701,916)	(14,733,066)
Class B	(986,391)	(755,455)
Net realized gains		
Class A	(2,734,888)	(9,005,857)
Class B	(359,519)	(509,269)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	20,190,555	45,404,708
Reinvestment of distributions	11,436,803	23,738,923
Cost of shares redeemed	(97,935,807)	(259,047,177)
Net increase (decrease) in net assets from Class A share transactions	(66,308,449)	(189,903,546)
<b>Class B</b>		
Proceeds from shares sold	23,191,368	71,406,944
Reinvestment of distributions	1,345,911	1,264,724
Cost of shares redeemed	(13,460,654)	(36,011,827)
Net increase (decrease) in net assets from Class B share transactions	11,076,625	36,659,841
<b>Increase (decrease) in net assets</b>	<b>(55,222,487)</b>	<b>(168,995,733)</b>
Net assets at beginning of period	384,792,182	553,787,915
Net assets at end of period (including undistributed net investment income of \$10,896,663 and \$9,445,556, respectively)	<b>\$ 329,569,695</b>	<b>\$ 384,792,182</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	27,631,433	42,918,597
Shares sold	1,635,527	3,576,998
Shares issued to shareholders in reinvestment of distributions	932,855	1,917,523
Shares redeemed	(7,890,563)	(20,781,685)
Net increase (decrease) in Portfolio shares	(5,322,181)	(15,287,164)
Shares outstanding at end of period	<b>22,309,252</b>	<b>27,631,433</b>
<b>Class B</b>		
Shares outstanding at beginning of period	3,055,787	216,015
Shares sold	1,876,522	5,681,579
Shares issued to shareholders in reinvestment of distributions	109,781	102,159
Shares redeemed	(1,089,711)	(2,943,966)
Net increase (decrease) in Portfolio shares	896,592	2,839,772
Shares outstanding at end of period	<b>3,952,379</b>	<b>3,055,787</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001 <sup>a</sup>	2000 <sup>b</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 12.54	\$ 12.84	\$ 12.32	\$ 11.96	\$ 11.56
<i>Income from investment operations:</i>					
Net investment income <sup>c</sup>	.44	.31	.62	.61	.75
Net realized and unrealized gain (loss) on investment transactions	.03	(.04)	.35	.25	.45
<b>Total from investment operations</b>	<b>.47</b>	<b>.27</b>	<b>.97</b>	<b>.86</b>	<b>1.20</b>
<i>Less distributions from:</i>					
Net investment income	(.35)	(.35)	(.45)	(.50)	(.80)
Net realized gain on investment transactions	(.11)	(.22)	—	—	—
<b>Total distributions</b>	<b>(.46)</b>	<b>(.57)</b>	<b>(.45)</b>	<b>(.50)</b>	<b>(.80)</b>
<b>Net asset value, end of period</b>	<b>\$ 12.55</b>	<b>\$ 12.54</b>	<b>\$ 12.84</b>	<b>\$ 12.32</b>	<b>\$ 11.96</b>
Total Return (%)	3.75 <sup>e</sup>	2.26	8.05	7.48	10.93

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	280	347	551	305	152
Ratio of expenses (%)	.61	.61	.59	.60	.61
Ratio of net investment income (loss) (%)	3.59	2.50	4.96	5.06	6.60
Portfolio turnover rate (%)	226 <sup>d</sup>	511 <sup>d</sup>	534 <sup>d</sup>	334	173

<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, gain/losses on 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 391%, 536% and 651% for the periods ended December 31, 2004, December 31, 2003 and December 31, 2002, respectively.

<sup>e</sup> Reimbursement of \$2,420 due to disposal of investments in violation of restrictions had no effect on total return.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 12.51	\$ 12.82	\$ 12.36
<i>Income from investment operations:</i>			
Net investment income <sup>b</sup>	.40	.27	.31
Net realized and unrealized gain (loss) on investment transactions	.02	(.04)	.15
<b>Total from investment operations</b>	<b>.42</b>	<b>.23</b>	<b>.46</b>
<i>Less distributions from:</i>			
Net investment income	(.30)	(.32)	—
Net realized gains on investment transactions	(.11)	(.22)	—
<b>Total distributions</b>	<b>(.41)</b>	<b>(.54)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 12.52</b>	<b>\$ 12.51</b>	<b>\$ 12.82</b>
Total Return (%)	3.36 <sup>d</sup>	1.83	3.72 <sup>**</sup>

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	49	38	3
Ratio of expenses (%)	1.00	.98	.84 <sup>*</sup>
Ratio of net investment income (loss) (%)	3.21	2.13	4.95 <sup>*</sup>
Portfolio turnover rate (%)	226 <sup>c</sup>	511 <sup>c</sup>	534 <sup>c</sup>

<sup>a</sup> For the period July 1, 2002 (commencement of operations 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 391%, 536% and 651% for the periods ended December 31, 2004, December 31, 2003 and December 31, 2002, respectively.

<sup>d</sup> Reimbursement of \$2,420 due to disposal of investments in violation of restrictions had no effect on total return.

<sup>\*</sup> Annualized

<sup>\*\*</sup> Not annualized

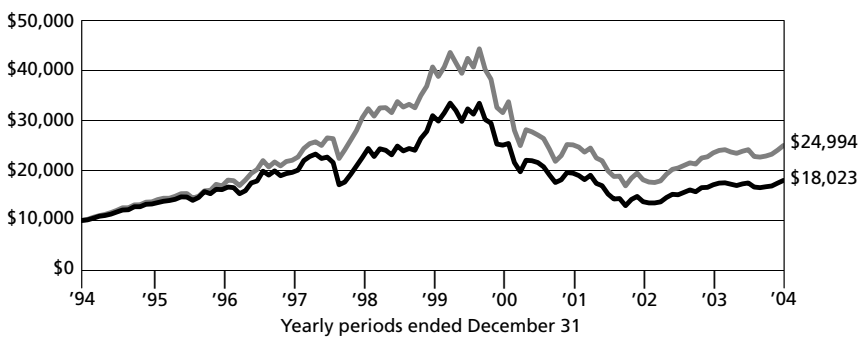
## Scudder Growth Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in Scudder Growth Portfolio from 12/31/1994 to 12/31/2004

- Scudder Growth Portfolio — Class A
- Russell 1000 Growth Index



The Russell 1000 Growth Index is an unmanaged index composed of common stock of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder Growth Portfolio		1-Year	3-Year	5-Year	10-Year
Class A	Growth of \$10,000	\$10,514	\$9,257	\$5,819	\$18,023
	Average annual total return	5.14%	-2.54%	-10.26%	6.07%
Russell 1000 Growth Index	Growth of \$10,000	\$10,630	\$9,946	\$6,140	\$24,994
	Average annual total return	6.30%	-.18%	-9.29%	9.59%
Scudder Growth Portfolio		1-Year	Life of Class*		
Class B	Growth of \$10,000	\$10,477	\$12,039		
	Average annual total return	4.77%	7.70%		
Russell 1000 Growth Index	Growth of \$10,000	\$10,630	\$12,555		
	Average annual total return	6.30%	9.53%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## Scudder Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

<b>Actual Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,030.80	\$ 1,029.30
Expenses Paid per \$1,000*	\$ 3.28	\$ 5.17

<b>Hypothetical 5% Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,021.77	\$ 1,020.11
Expenses Paid per \$1,000*	\$ 3.27	\$ 5.15

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

<b>Annualized Expense Ratios</b>	<b>Class A</b>	<b>Class B</b>
Scudder Variable Series II — Scudder Growth Portfolio	.64%	1.01%

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

## Scudder Growth Portfolio

While equity market performance in general was positive in 2004, substantial performance disparities existed between investment styles and market capitalizations. Small caps outperformed large cap as the 18.33% advance of the Russell 2000 Index outpaced the 10.88% gain of the S&P 500 index. In terms of investment style, the 6.30% annual return of the Russell 1000 Growth Index significantly trailed the 16.49% advance of the Russell 1000 Value Index, marking the fifth consecutive year that value outperformed growth.

The Scudder Growth Portfolio's return of 5.14% (Class A shares, unadjusted for contract charges) underperformed its benchmark, the Russell 1000 Growth Index in the year ended December 31, 2004 as positioning in the Information Technology and Consumer Discretionary sectors detracted from relative performance. As 2004 progressed, we reduced the portfolio's cyclical exposure and emphasized more consistent earners in anticipation of slowing profit growth. This strategy proved successful for most of 2004. In the fourth quarter however, as the presidential election was decided and oil prices declined from near-record highs, investor optimism grew. This optimism led to a sharp rebound in the more cyclical, volatile sectors of the market. The Scudder Growth Portfolio, therefore, underperformed in the fourth quarter and the outperformance we had enjoyed through the first three quarters of the year was negated.

In a continued example of adding value through top-down sector allocation, the portfolio's overweight in the Energy sector remained in place throughout 2004 and proved to be extremely additive to annual performance. While oil prices remain volatile, our investment thesis is focused on the long-term growth opportunities created by a chronic underinvestment in the exploration and production of new reserves.

Our investment philosophy is unchanged as we maintain our belief that a diversified portfolio of high-quality large-cap growth stocks will outperform over longer time periods. Therefore, we continue to seek out and find companies that reconcile well with our key selection criteria of quality, growth and innovation.

Julie M. Van Cleave

Jack A. Zehner

Thomas J. Schmid

Co-Managers

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 1000 Growth Index is an unmanaged index composed of common stock of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## Scudder Growth Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	97%	99%
Exchange Traded Funds	1%	—
Cash Equivalents	2%	1%
	<b>100%</b>	<b>100%</b>

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Information Technology	24%	30%
Health Care	23%	20%
Consumer Discretionary	15%	16%
Consumer Staples	12%	12%
Industrials	9%	8%
Energy	9%	5%
Financials	7%	8%
Materials	1%	1%
	<b>100%</b>	<b>100%</b>

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 56. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 97.9%</b>			<b>Transocean, Inc.*</b>		
				38,900	1,648,971
			<b>12,463,591</b>		
<b>Consumer Discretionary 14.3%</b>			<b>Oil &amp; Gas 4.6%</b>		
<b>Automobiles 1.6%</b>			ConocoPhillips		
Harley-Davidson, Inc.	82,900	5,036,175		38,700	3,360,321
<b>Hotels Restaurants &amp; Leisure 1.5%</b>			Devon Energy Corp.		
International Game Technology	105,800	3,637,404		98,600	3,837,512
YUM! Brands, Inc.	17,800	839,804		98,000	6,993,280
			<b>14,191,113</b>		
			<b>Financials 7.1%</b>		
			<b>Capital Markets 2.2%</b>		
<b>Household Durables 0.3%</b>			Goldman Sachs Group, Inc.		
Fortune Brands, Inc.	13,400	1,034,212		14,600	1,518,984
<b>Internet &amp; Catalog Retail 1.2%</b>			Lehman Brothers Holdings, Inc.		
eBay, Inc.*	30,800	3,581,424		23,100	2,020,788
			Morgan Stanley		
				55,400	3,075,808
			<b>6,615,580</b>		
<b>Media 3.8%</b>			<b>Consumer Finance 1.6%</b>		
Comcast Corp. "A"*	74,000	2,430,160	American Express Co.		
McGraw-Hill Companies, Inc.	18,800	1,720,952		87,900	4,954,923
Omnicom Group, Inc.	57,440	4,843,341	<b>Diversified Financial Services 1.4%</b>		
Viacom, Inc. "B"	76,230	2,774,010	Citigroup, Inc.		
				91,200	4,394,016
			<b>Insurance 1.9%</b>		
			AFLAC, Inc.		
<b>Multiline Retail 2.7%</b>				72,400	2,884,416
Kohl's Corp.*	33,700	1,657,029	American International Group, Inc.		
Target Corp.	125,400	6,512,022		43,810	2,877,003
			<b>5,761,419</b>		
			<b>Health Care 22.1%</b>		
			<b>Biotechnology 5.6%</b>		
<b>Specialty Retail 3.2%</b>			Amgen, Inc.*		
Bed Bath & Beyond, Inc.*	56,500	2,250,395		74,800	4,798,420
Home Depot, Inc.	41,900	1,790,806		55,700	3,710,177
Lowe's Companies, Inc.	32,100	1,848,639		86,000	4,681,840
Staples, Inc.	116,900	3,940,699		111,100	3,887,389
			<b>17,077,826</b>		
			<b>Health Care Equipment &amp; Supplies 6.0%</b>		
<b>Consumer Staples 11.5%</b>			Baxter International, Inc.		
<b>Beverages 2.2%</b>				69,900	2,414,346
PepsiCo, Inc.	127,450	6,652,890		82,300	2,925,765
<b>Food &amp; Drug Retailing 4.3%</b>				39,800	2,546,404
Wal-Mart Stores, Inc.	162,990	8,609,132		108,200	5,374,294
Walgreen Co.	119,700	4,592,889		65,300	5,231,836
			<b>18,492,645</b>		
			<b>Health Care Providers &amp; Services 1.9%</b>		
			UnitedHealth Group, Inc.		
<b>Food Products 1.5%</b>				66,600	5,862,798
Dean Foods Co.*	40,200	1,324,590	<b>Pharmaceuticals 8.6%</b>		
Hershey Foods Corp.	34,900	1,938,346	Abbott Laboratories		
Kellogg Co.	33,900	1,513,974		53,300	2,486,445
			Eli Lilly & Co.		
				32,000	1,816,000
			Johnson & Johnson		
<b>Household Products 3.5%</b>				179,586	11,389,344
Colgate-Palmolive Co.	42,840	2,191,694		242,702	6,526,257
Kimberly-Clark Corp.	22,900	1,507,049	Teva Pharmaceutical Industries Ltd. (ADR)		
Procter & Gamble Co.	125,700	6,923,556		139,800	4,174,428
			<b>26,392,474</b>		
			<b>Industrials 9.3%</b>		
			<b>Aerospace &amp; Defense 2.1%</b>		
<b>Energy 8.7%</b>			United Technologies Corp.		
<b>Energy Equipment &amp; Services 4.1%</b>				61,600	6,366,360
Baker Hughes, Inc.	83,900	3,580,013	<b>Air Freight &amp; Logistics 1.6%</b>		
Nabors Industries Ltd.*	64,300	3,297,947	FedEx Corp.		
Schlumberger Ltd.	58,800	3,936,660		51,400	5,062,386

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

	Shares	Value (\$)
<b>Industrial Conglomerates 5.0%</b>		
3M Co.	37,000	3,036,590
General Electric Co.	334,940	12,225,310
		<b>15,261,900</b>
<b>Machinery 0.6%</b>		
Caterpillar, Inc.	17,900	1,745,429
<b>Information Technology 24.0%</b>		
<b>Communications Equipment 3.8%</b>		
Cisco Systems, Inc.*	365,420	7,052,606
QUALCOMM, Inc.	109,400	4,638,560
		<b>11,691,166</b>
<b>Computers &amp; Peripherals 4.3%</b>		
Dell, Inc.*	60,400	2,545,256
EMC Corp.*	385,700	5,735,359
International Business Machines Corp.	50,000	4,929,000
		<b>13,209,615</b>
<b>IT Consulting &amp; Services 3.3%</b>		
Accenture Ltd. "A"*	105,200	2,840,400
Fiserv, Inc.*	86,000	3,456,340
Paychex, Inc.	106,300	3,622,704
		<b>9,919,444</b>
<b>Semiconductors &amp; Semiconductor Equipment 4.5%</b>		
Intel Corp.	331,740	7,759,398
Linear Technology Corp.	91,230	3,536,075
Texas Instruments, Inc.	99,400	2,447,228
		<b>13,742,701</b>
<b>Software 8.1%</b>		
Adobe Systems, Inc.	15,000	941,100
Electronic Arts, Inc.* (c)	74,200	4,576,656

	Shares	Value (\$)
Intuit, Inc.*	43,700	1,923,237
Microsoft Corp.	457,480	12,219,290
Oracle Corp.*	184,000	2,524,480
Symantec Corp.*	104,000	2,679,040
		<b>24,863,803</b>

#### Materials 0.9%

<b>Chemicals</b>		
Ecolab, Inc.	76,000	2,669,880
<b>Total Common Stocks (Cost \$229,803,236)</b>		<b>299,890,261</b>

#### Exchange Traded Funds 0.9%

iShares Nasdaq Biotechnology Index Fund* (c)	18,400	1,387,360
Semiconductor HOLDERS Trust	44,600	1,487,856
<b>Total Exchange Traded Funds (Cost \$3,020,966)</b>		<b>2,875,216</b>

#### Securities Lending Collateral 1.5%

Daily Assets Fund Institutional, 2.25% (d) (e) (Cost \$4,617,400)	4,617,400	4,617,400
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#### Cash Equivalents 1.9%

Scudder Cash Management QP Trust, 2.24% (b) (Cost \$5,958,356)	5,958,356	5,958,356
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	% of Net Assets	Value (\$)
<b>Total Investment Portfolio (Cost \$243,399,958) (a)</b>	102.2	<b>313,341,233</b>
<b>Other Assets and Liabilities, Net</b>	(2.2)	<b>(6,861,289)</b>
<b>Net Assets</b>	100.0	<b>306,479,944</b>

#### Notes to Scudder Growth Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$245,015,726. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$68,325,507. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$70,905,457 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$2,579,950.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$4,479,075, which is 1.5% of net assets.
- (d) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (e) Represents collateral held in connection with securities lending.

ADR: American Depositary Receipts.

HOLDERS: Holding Company Depositary Receipts

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



# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$232,824,202) — including \$4,479,075 of securities loaned	\$ 302,765,477
Investments in Daily Assets Fund Institutional (cost \$4,617,400)*	4,617,400
Investment in Scudder Cash Management QP Trust (cost \$5,958,356)	5,958,356
Total investments in securities, at value (cost \$243,399,958)	313,341,233
Cash	153
Dividends receivable	236,859
Interest receivable	12,072
Receivable for Portfolio shares sold	348,923
Other assets	16,835
Total assets	313,956,075

### Liabilities

Payable for Portfolio shares redeemed	2,634,253
Payable upon return of securities loaned	4,617,400
Accrued management fee	156,458
Other accrued expenses and payables	68,020
Total liabilities	7,476,131
<b>Net assets, at value</b>	<b>\$ 306,479,944</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	2,081,479
Net unrealized appreciation (depreciation) on investments	69,941,275
Accumulated net realized gain (loss)	(162,361,013)
Paid-in capital	396,818,203
<b>Net assets, at value</b>	<b>\$ 306,479,944</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$290,395,910 ÷ 14,958,026 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 19.41</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$16,084,034 ÷ 832,962 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 19.31</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$7,592)	\$ 4,162,057
Interest — Scudder Cash Management QP Trust	73,263
Securities lending income, including income from Daily Assets Fund Institutional	3,559
Total Income	4,238,879
Expenses:	
Management fee	1,842,117
Custodian fees	16,638
Distribution service fees (Class B)	29,642
Record keeping fees (Class B)	14,980
Auditing	41,460
Legal	18,398
Trustees' fees and expenses	4,785
Reports to shareholders	64,805
Other	6,451
Total expenses, before expense reductions	2,039,276
Expense reductions	(3,043)
Total expenses, after expense reductions	2,036,233
<b>Net investment income (loss)</b>	<b>2,202,646</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(2,112,683)
Net unrealized appreciation (depreciation) during the period on investments	15,006,327
<b>Net gain (loss) on investment transactions</b>	<b>12,893,644</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 15,096,290</b>

## Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 2,202,646	\$ 830,426
Net realized gain (loss) on investment transactions	(2,112,683)	(12,111,531)
Net unrealized appreciation (depreciation) on investment transactions during the period	15,006,327	78,050,590
Net increase (decrease) in net assets resulting from operations	15,096,290	66,769,485
Distributions to shareholders from:		
Net investment income		
<b>Class A</b>	(815,090)	(328,128)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	18,466,237	46,556,451
Reinvestment of distributions	815,090	328,128
Cost of shares redeemed	(55,750,428)	(45,206,144)
Net increase (decrease) in net assets from Class A share transactions	(36,469,101)	1,678,435
<b>Class B</b>		
Proceeds from shares sold	8,950,573	6,505,025
Cost of shares redeemed	(494,088)	(422,693)
Net increase (decrease) in net assets from Class B share transactions	8,456,485	6,082,332
<b>Increase (decrease) in net assets</b>	(13,731,416)	74,202,124
Net assets at beginning of period	320,211,360	246,009,236
Net assets at end of period (including undistributed net investment income of \$2,081,479 and \$702,179, respectively)	\$ 306,479,944	\$ 320,211,360
<b>Other Information</b>		
<b>Class A</b>		
Shares outstanding at beginning of period	16,929,119	16,549,770
Shares sold	995,737	3,153,740
Shares issued to shareholders in reinvestment of distributions	43,869	22,156
Shares redeemed	(3,010,699)	(2,796,547)
Net increase (decrease) in Portfolio shares	(1,971,093)	379,349
Shares outstanding at end of period	14,958,026	16,929,119
<b>Class B</b>		
Shares outstanding at beginning of period	374,544	8,811
Shares sold	485,347	390,729
Shares redeemed	(26,929)	(24,996)
Net increase (decrease) in Portfolio shares	458,418	365,733
Shares outstanding at end of period	832,962	374,544

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 18.51</b>	<b>\$ 14.86</b>	<b>\$ 21.05</b>	<b>\$ 30.12</b>	<b>\$ 40.54</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.14	.05	.01	.03	(.01)
Net realized and unrealized gain (loss) on investment transactions	.81	3.62	(6.20)	(6.75)	(6.81)
<b>Total from investment operations</b>	<b>.95</b>	<b>3.67</b>	<b>(6.19)</b>	<b>(6.72)</b>	<b>(6.82)</b>
<i>Less distributions from:</i>					
Net investment income	(.05)	(.02)	—	(.03)	—
Net realized gains on investment transactions	—	—	—	(2.31)	(3.60)
Return of capital	—	—	—	(.01)	—
<b>Total distributions</b>	<b>(.05)</b>	<b>(.02)</b>	<b>—</b>	<b>(2.35)</b>	<b>(3.60)</b>
<b>Net asset value, end of period</b>	<b>\$ 19.41</b>	<b>\$ 18.51</b>	<b>\$ 14.86</b>	<b>\$ 21.05</b>	<b>\$ 30.12</b>
Total Return (%)	5.14	24.71	(29.41)	(22.34)	(19.06)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	290	313	246	420	583
Ratio of expenses (%)	.65	.64	.64	.63	.65
Ratio of net investment income (loss) (%)	.73	.29	.07	.13	(.03)
Portfolio turnover rate (%)	21	26	38	73	65

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period 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

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
<b>Net asset value, beginning of period</b>	<b>\$ 18.43</b>	<b>\$ 14.83</b>	<b>\$ 16.04</b>
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.07	(.03)	.06
Net realized and unrealized gain (loss) on investment transactions	.81	3.63	(1.27)
<b>Total from investment operations</b>	<b>.88</b>	<b>3.60</b>	<b>(1.21)</b>
<b>Net asset value, end of period</b>	<b>\$ 19.31</b>	<b>\$ 18.43</b>	<b>\$ 14.83</b>
Total Return (%)	4.77	24.28	(7.54)**
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	16	7	.1
Ratio of expenses (%)	1.03	1.03	.88*
Ratio of net investment income (loss) (%)	.35	(.10)	.80*
Portfolio turnover rate (%)	21	26	38

<sup>a</sup> For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

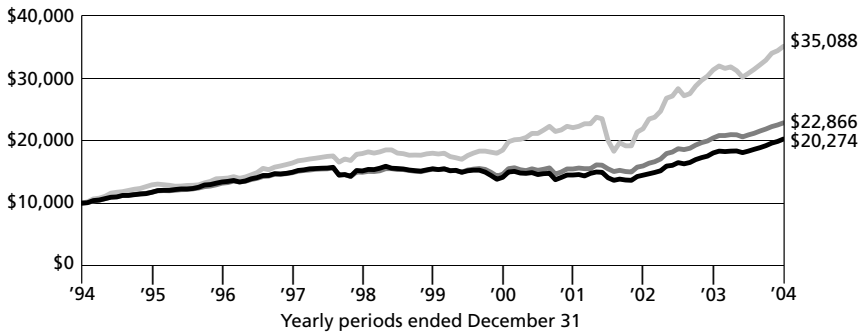
## Scudder High Income Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. Additionally, the Portfolio may invest in lower-quality and nonrated securities which present greater risk of loss of principal and interest than higher-quality securities. All of these factors may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in Scudder High Income Portfolio from 12/31/1994 to 12/31/2004

- Scudder High Income Portfolio — Class A
- CSFB High Yield Index
- Citigroup Long-Term High Yield Bond Index



The CSFB 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. The Citigroup Long-Term High Yield Bond Index (formerly known as Salomon Smith Barney Long-Term High Yield Bond Index) is an unmanaged index that 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. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder High Income Portfolio	1-Year	3-Year	5-Year	10-Year
<b>Class A</b>				
Growth of \$10,000	\$11,242	\$13,967	\$13,090	\$20,274
Average annual total return	12.42%	11.78%	5.53%	7.32%
<b>CSFB High Yield Index</b>				
Growth of \$10,000	\$11,195	\$14,768	\$14,810	\$22,866
Average annual total return	11.95%	13.88%	8.17%	8.62%
<b>Citigroup Long-Term High Yield Bond Index</b>				
Growth of \$10,000	\$11,202	\$15,888	\$19,501	\$35,088
Average annual total return	12.02%	16.69%	14.29%	13.37%
<b>Scudder High Income Portfolio</b>			<b>1-Year</b>	<b>Life of Class*</b>
<b>Class B</b>				
Growth of \$10,000			\$11,208	\$14,261
Average annual total return			12.08%	15.24%
<b>CSFB High Yield Index</b>				
Growth of \$10,000			\$11,195	\$14,744
Average annual total return			11.95%	16.72%
<b>Citigroup Long-Term High Yield Bond Index</b>				
Growth of \$10,000			\$11,202	\$17,511
Average annual total return			12.02%	25.00%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

Effective 10/7/2002 the Portfolio changed its investment objective.

# Information About Your Portfolio's Expenses

## Scudder High Income Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,105.80	\$ 1,103.10
Expenses Paid per \$1,000*	\$ 3.48	\$ 5.52
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,021.90	\$ 1,019.96
Expenses Paid per \$1,000*	\$ 3.34	\$ 5.30

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — Scudder High Income Portfolio	.66%	1.04%

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

## Scudder High Income Portfolio

The high-yield market produced a solid return for the year, making it the top-performing fixed income asset class. Performance of the high-yield market was supported by the continued improvement in its fundamentals, which was reflected in lower default rates, corporations steadily improving financial positions and an increasing ratio of upgrades to downgrades. For the year ended December 31, 2004, the portfolio produced a total return of 12.42% (Class A shares, unadjusted for contract charges) compared with 11.95% for the CS First Boston (CSFB) High Yield Index, the portfolio's benchmark.

We strive to add value by using fundamental research to identify undervalued individual securities rather than making broad predictions about sector performance, interest rates or the overall high-yield market. As a result of this investment approach, we continued to find the most relative value opportunities in higher-yielding securities. Security selection added to return, as did an underweight to issues rated BB and above (since higher-rated bonds underperformed the market as a whole). The portfolio remained underweight in CC/defaulted securities, and this detracted from return somewhat. On a sector basis, the most significant contributor was a position in bonds issued by chemical companies. Overall, we remain positive on the fundamentals of the high-yield asset class. We continue to find value in the middle-tier quality segment of the market, and we will therefore maintain a modestly aggressive positioning within the portfolio.

Andrew P. Cestone

Portfolio Manager

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. Additionally, the portfolio may invest in lower-quality and nonrated securities which present greater risk of loss of principal and interest than higher-quality securities. All of these factors may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*Credit quality ratings cited are the ratings of Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Corporation (S&P), which represent these companies' opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The portfolio's credit quality does not remove market risk.*

*The CS First Boston High Yield Index (CSFB) 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, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## Scudder High Income Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Corporate Bonds	74%	82%
Foreign Bonds — US\$ Denominated	20%	12%
Foreign Bonds — Non US\$ Denominated	2%	1%
Cash Equivalents	2%	1%
Asset Backed	1%	1%
Convertible Bonds	1%	1%
Stocks	—	1%
US Government Backed	—	1%
	100%	100%

<b>Corporate and Foreign Bond Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Consumer Discretionary	24%	26%
Materials	16%	13%
Industrials	14%	15%
Telecommunication Services	14%	12%
Financials	9%	9%
Energy	7%	10%
Utilities	5%	6%
Consumer Staples	4%	4%
Health Care	3%	3%
Sovereign Bonds	2%	1%
Information Technology	2%	1%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 65. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder High Income Portfolio

	Principal Amount \$(c)	Value (\$)		Principal Amount \$(c)	Value (\$)
<b>Corporate Bonds 72.7%</b>					
<b>Consumer Discretionary 19.2%</b>					
Adesa, Inc., 7.625%, 6/15/2012	515,000	543,325	Levi Strauss & Co.:		
AMC Entertainment, Inc., 8.0%, 3/1/2014	1,085,000	1,079,575	7.0%, 11/1/2006 (e)	935,000	981,750
American Lawyer Media, Inc., Series B, 9.75%, 12/15/2007	1,235,000	1,248,894	12.25%, 12/15/2012 (e)	95,000	105,688
Atlantic Broadband Finance LLC, 144A, 9.375%, 1/15/2014	1,351,000	1,307,092	Mediacom LLC, 9.5%, 1/15/2013 (e)	2,165,000	2,173,119
Bally Total Fitness Holdings Corp., 10.5%, 7/15/2011	1,145,000	1,153,587	MGM MIRAGE:		
Cablevision Systems New York Group, 144A, 6.669%**, 4/1/2009 (e)	790,000	837,400	8.375%, 2/1/2011 (e)	1,905,000	2,147,887
Caesars Entertainment, Inc., 9.375%, 2/15/2007	380,000	418,950	9.75%, 6/1/2007	380,000	421,800
Carrols Corp., 144A, 9.0%, 1/15/2013	365,000	377,775	Mothers Work, Inc., 11.25%, 8/1/2010	535,000	518,950
Charter Communications Holdings LLC:			NCL Corp., 144A, 10.625%, 7/15/2014	1,290,000	1,290,000
Step-up Coupon, 0% to 5/15/2006, 11.75% to 5/15/2011	2,695,000	1,980,825	Norcraft Holdings/Capital, Step-up Coupon, 0% to 9/1/2008, 9.75% to 9/1/2012	1,090,000	817,500
9.625%, 11/15/2009 (e)	2,055,000	1,803,262	Paxon Communications Corp., 10.75%, 7/15/2008 (e)	870,000	913,500
10.25%, 9/15/2010	3,815,000	4,043,900	PEI Holding, Inc., 11.0%, 3/15/2010	1,310,000	1,526,150
Cooper Standard Automotive, Inc., 144A, 8.375%, 12/15/2014	515,000	513,713	Petro Stopping Centers, 9.0%, 2/15/2012	1,730,000	1,829,475
CSC Holdings, Inc., 7.875%, 12/15/2007	1,200,000	1,287,000	Pinnacle Entertainment, Inc., 8.75%, 10/1/2013 (e)	425,000	460,063
Dex Media East LLC/Financial, 12.125%, 11/15/2012	4,322,000	5,267,437	Premier Entertainment Biloxi LLC/Finance, 10.75%, 2/1/2012	940,000	1,026,950
DIMON, Inc.:			PRIMEDIA, Inc.:		
7.75%, 6/1/2013	430,000	451,500	7.665%***, 5/15/2010	1,655,000	1,754,300
Series B, 9.625%, 10/15/2011	3,160,000	3,460,200	8.875%, 5/15/2011 (e)	1,110,000	1,173,825
Dura Operating Corp.:			Renaissance Media Group LLC, 10.0%, 4/15/2008	1,110,000	1,143,300
Series B, 8.625%, 4/15/2012 (e)	410,000	426,400	Rent-Way, Inc., 11.875%, 6/15/2010	650,000	732,063
Series B, 9.0%, 5/1/2009 EUR	185,000	238,888	Restaurant Co., 11.25%, 5/15/2008	1,438,991	1,456,978
Series D, 9.0%, 5/1/2009 (e)	665,000	658,350	Sbarro, Inc., 11.0%, 9/15/2009 (e)	870,000	878,700
Dyersburg Corp., Series B, 9.75%, 9/1/2007*	1,260,000	126	Schuler Homes, Inc., 10.5%, 7/15/2011 (e)	1,210,000	1,376,375
EchoStar DBS Corp., 144A, 6.625%, 10/1/2014	780,000	789,750	Simmons Bedding Co., 144A, Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014	1,160,000	707,600
EPL Intermediate, Inc., Step-up Coupon, 0% to 3/15/2009, 12.5% to 3/15/2010	475,000	311,125	Sinclair Broadcast Group, Inc.:		
Foot Locker, Inc., 8.5%, 1/15/2022	545,000	599,500	8.0%, 3/15/2012	2,390,000	2,539,375
Friendly Ice Cream Corp., 8.375%, 6/15/2012 (e)	1,490,000	1,462,062	8.75%, 12/15/2011	1,755,000	1,910,756
General Motors Corp., 8.25%, 7/15/2023	970,000	1,010,422	Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013 (e)	1,800,000	1,919,250
Icon Health & Fitness, Inc., 11.25%, 4/1/2012	1,005,000	844,200	Toys "R" Us, Inc.:		
Imperial Home Decor Group, Inc., Series B, 11.0%, 3/15/2008*	1,050,000	0	7.375%, 10/15/2018	2,320,000	2,146,000
Interp National Radio Sales, Inc., Series B, 10.0%, 7/1/2008 (e)	860,000	648,225	7.875%, 4/15/2013 (e)	850,000	843,625
J Crew Intermediate LLC, Step-up Coupon, 0% to 11/15/2005, 16.0% to 5/15/2008 (e)	602,862	572,659	True Temper Sports, Inc., 8.375%, 9/15/2011 (e)	685,000	637,050
Jacobs Entertainment Co., 11.875%, 2/1/2009	2,220,000	2,508,600	Trump Holdings & Funding, 12.625%, 3/15/2010*	885,000	958,013
Kellwood Co., 7.625%, 10/15/2017	230,000	252,952	TRW Automotive, Inc.:		
			11.0%, 2/15/2013 (e)	950,000	1,144,750
			11.75%, 2/15/2013 EUR	490,000	812,559
			United Auto Group, Inc., 9.625%, 3/15/2012	1,060,000	1,171,300
			Venetian Casino Resort LLC, 11.0%, 6/15/2010	1,215,000	1,386,619
			Virgin River Casino Corp., 144A, 9.0%, 1/15/2012	95,000	98,800
			Visteon Corp.:		
			7.0%, 3/10/2014 (e)	1,140,000	1,088,700
			8.25%, 8/1/2010 (e)	860,000	900,850
			Wheeling Island Gaming, Inc., 10.125%, 12/15/2009	990,000	1,054,350

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



	Principal Amount \$(c)	Value (\$)
Williams Scotsman, Inc., 9.875%, 6/1/2007 (e)	2,015,000	2,015,000
Worldspan LP/WS Finance Corp., 9.625%, 6/15/2011 (e)	830,000	825,850
Wynn Las Vegas LLC, 144A, 6.625%, 12/1/2014	2,420,000	2,395,800
XM Satellite Radio, Inc., Step-up Coupon, 0% to 12/31/2005, 14.0% to 12/31/2009	1,291,934	1,317,773
Young Broadcasting, Inc., 8.75%, 1/15/2014 (e)	1,595,000	1,606,962
		<b>86,307,049</b>

#### Consumer Staples 2.6%

Agrilink Foods, Inc., 11.875%, 11/1/2008	588,000	612,255
Church & Dwight Co., Inc., 144A, 6.0%, 12/15/2012	580,000	590,150
Duane Reade, Inc.:		
144A, 7.01%***, 12/15/2010	480,000	487,200
144A, 9.75%, 8/1/2011 (e)	1,255,000	1,142,050
North Atlantic Holding, Inc., Step-up Coupon, 0% to 3/1/2008, 12.25% to 3/1/2014	960,000	393,600
Pierre Foods, Inc., 144A, 9.875%, 7/15/2012	470,000	486,450
Pinnacle Foods Holding Corp., 144A, 8.25%, 12/1/2013 (e)	1,420,000	1,352,550
Prestige Brands, Inc., 144A, 9.25%, 4/15/2012	240,000	255,000
Revlon Consumer Products Corp., 9.0%, 11/1/2006	1,160,000	1,148,400
Rite Aid Corp., 11.25%, 7/1/2008 (e)	1,725,000	1,871,625
Standard Commercial Corp., 8.0%, 4/15/2012	580,000	595,950
Swift & Co., 12.5%, 1/1/2010 (e)	1,005,000	1,135,650
VICORP Restaurants, Inc., 10.5%, 4/15/2011 (e)	680,000	683,400
Wornick Co., 10.875%, 7/15/2011	955,000	1,036,175
		<b>11,790,455</b>

#### Energy 4.6%

Avista Corp., 9.75%, 6/1/2008	1,700,000	1,971,082
Chesapeake Energy Corp.:		
6.875%, 1/15/2016	1,025,000	1,073,687
9.0%, 8/15/2012	645,000	736,913
CITGO Petroleum Corp., 144A, 6.0%, 10/15/2011	445,000	442,775
Dynegy Holdings, Inc.:		
6.875%, 4/1/2011 (e)	255,000	245,438
7.125%, 5/15/2018	1,210,000	1,078,412
7.625%, 10/15/2026	405,000	351,844
144A, 9.875%, 7/15/2010	1,350,000	1,508,625
Edison Mission Energy, 7.73%, 6/15/2009	2,615,000	2,811,125
El Paso Production Holding Corp., 7.75%, 6/1/2013	1,335,000	1,398,412
Mission Resources Corp., 9.875%, 4/1/2011	1,070,000	1,142,225
Newpark Resources, Inc., Series B, 8.625%, 12/15/2007	1,470,000	1,492,050
NGC Corp. Capital Trust I, Series B, 8.316%, 6/1/2027 (e)	470,000	398,913
Southern Natural Gas, 8.875%, 3/15/2010 (e)	810,000	907,200

Stone Energy Corp.:		
144A, 6.75%, 12/15/2014	635,000	633,412
8.25%, 12/15/2011	1,570,000	1,695,600
Williams Cos., Inc.:		
8.125%, 3/15/2012 (e)	1,540,000	1,778,700
8.75%, 3/15/2032	820,000	941,975
		<b>20,608,388</b>

#### Financials 8.0%

AAC Group Holding Corp., 144A, Step-up Coupon, 0% to 10/1/2008, 10.25% to 10/1/2012	970,000	652,325
Affinia Group, Inc., 144A, 9.0%, 11/30/2014	1,805,000	1,881,712
Ahold Finance USA, Inc., 6.25%, 5/1/2009	715,000	743,600
Alamosa Delaware, Inc., Step-up Coupon, 0% to 7/31/2005, 12.0% to 7/31/2009	633,000	686,805
American Commercial Bank, 6.5%, 6/30/2006	1,250,000	1,281,250
AmeriCredit Corp., 9.25%, 5/1/2009	2,445,000	2,622,263
Atlantic Mutual Insurance Co., 144A, 8.15%, 2/15/2028	605,000	368,930
BF Saul Real Estate Investment Trust, 7.5%, 3/1/2014	1,765,000	1,817,950
DFG Holdings, Inc.:		
144A, 13.95%, 5/15/2012	467,238	467,238
144A, 16.0%, 5/15/2012	476,302	523,932
Dow Jones CDX:		
144A, Series 3-1, 7.75%, 12/29/2009 (e)	1,550,000	1,593,593
144A, Series 3-3, 8.0%, 12/29/2009	1,550,000	1,589,719
E*TRADE Financial Corp., 144A, 8.0%, 6/15/2011	1,820,000	1,956,500
Farmers Insurance Exchange, 144A, 8.625%, 5/1/2024	1,865,000	2,199,878
FINOVA Group, Inc., 7.5%, 11/15/2009	10,464,550	5,127,629
FRD Acquisition Co., Series B, 12.5%, 7/15/2004*	210,000	0
Level 3 Commerce Bank, Zero Coupon, 12/15/2011	1,000,000	1,032,500
LNR Property Corp., 7.625%, 7/15/2013	555,000	629,925
Poster Financial Group, Inc., 8.75%, 12/1/2011 (e)	1,175,000	1,207,313
PXRE Capital Trust I, 8.85%, 2/1/2027	1,055,000	1,055,000
Qwest Capital Funding, Inc., 6.5%, 11/15/2018	1,140,000	946,200
R.H. Donnelly Finance Corp., 10.875%, 12/15/2012	500,000	593,750
Radnor Holdings Corp., 11.0%, 3/15/2010	1,060,000	908,950
Thornburg Mortgage, Inc., 8.0%, 5/15/2013	255,000	270,938
TIG Capital Holdings Trust, 144A, 8.597%, 1/15/2027	1,465,000	1,285,538
UAP Holdings Corp., 144A, Step-up Coupon, 0% to 1/15/2008, 10.75% to 7/15/2012	665,000	522,025
UGS Corp., 144A, 10.0%, 6/1/2012	805,000	915,688
Universal City Development, 11.75%, 4/1/2010	1,800,000	2,126,250

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

	Principal Amount \$(c)	Value (\$)		Principal Amount \$(c)	Value (\$)
Universal City Florida Holding Co., 144A, 7.2%** , 5/1/2010	465,000	483,600	Delta Air Lines, Inc.:		
Venoco, Inc., 144A, 8.75%, 12/15/2011	505,000	520,150	7.9%, 12/15/2009 (e)	505,000	315,625
		<b>36,011,151</b>	8.3%, 12/15/2029 (e)	685,000	332,225
<b>Health Care 2.5%</b>			Eagle-Picher Industries, Inc., 9.75%, 9/1/2013	215,000	215,000
AmeriPath, Inc., 10.5%, 4/1/2013	760,000	807,500	Erico International Corp., 8.875%, 3/1/2012	905,000	950,250
AmerisourceBergen Corp., 7.25%, 11/15/2012	15,000	16,762	Evergreen International Aviation, Inc., 12.0%, 5/15/2010	310,000	234,825
Cinacalcet Royalty Subordinated LLC, 8.0%, 3/30/2017	1,005,000	1,010,025	Goodman Global Holding Co., Inc., 144A, 7.875%, 12/15/2012	1,515,000	1,499,850
Curative Health Services, Inc., 10.75%, 5/1/2011	645,000	577,275	GS Technologies Operating Co., Inc., 12.0%, 9/1/2024*	315,268	788
Encore Medical Corp., 144A, 9.75%, 10/1/2012	605,000	611,050	Interface, Inc., 10.375%, 2/1/2010	445,000	511,750
Hanger Orthopedic Group, Inc., 10.375%, 2/15/2009 (e)	1,030,000	1,063,475	ISP Chemco, Inc., Series B, 10.25%, 7/1/2011	1,615,000	1,824,950
HEALTHSOUTH Corp., 10.75%, 10/1/2008 (e)	1,650,000	1,740,750	Joy Global, Inc., Series B, 8.75%, 3/15/2012	145,000	162,400
IDI Acquisition Corp., 144A, 10.75%, 12/15/2011	355,000	363,875	Kansas City Southern:		
InSight Health Services Corp., Series B, 9.875%, 11/1/2011 (e)	745,000	752,450	7.5%, 6/15/2009	1,520,000	1,596,000
Interactive Health LLC, 144A, 8.0%, 4/1/2011	815,000	709,050	9.5%, 10/1/2008	1,735,000	1,971,394
National Mentor, Inc., 144A, 9.625%, 12/1/2012	140,000	148,750	Kinetek, Inc., Series D, 10.75%, 11/15/2006	2,170,000	2,121,175
Tenet Healthcare Corp., 6.375%, 12/1/2011 (e)	3,800,000	3,524,500	Laidlaw International, Inc., 10.75%, 6/15/2011	1,140,000	1,330,950
		<b>11,325,462</b>	Millennium America, Inc.:		
<b>Industrials 11.0%</b>			7.625%, 11/15/2026 (e)	1,980,000	1,950,300
Aavid Thermal Technologies, Inc., 12.75%, 2/1/2007	960,000	1,051,200	9.25%, 6/15/2008 (e)	1,865,000	2,121,437
Allied Security Escrow Corp., 144A, 11.375%, 7/15/2011	980,000	1,024,100	Remington Arms Co., Inc., 10.5%, 2/1/2011 (e)	895,000	863,675
Allied Waste North America, Inc., Series B, 5.75%, 2/15/2011	3,110,000	2,923,400	Sea Containers Ltd., 10.5%, 5/15/2012	580,000	610,450
AMI Semiconductor, Inc., 10.75%, 2/1/2013	323,000	379,525	Securus Technologies, Inc., 144A, 11.0%, 9/1/2011	1,100,000	1,100,000
Avondale Mills, Inc.:			Ship Finance International Ltd., 8.5%, 12/15/2013	1,275,000	1,313,250
144A, 9.00%** , 7/1/2012	1,125,000	1,012,500	SPX Corp.:		
10.25%, 7/1/2013	365,000	295,650	6.25%, 6/15/2011 (e)	400,000	422,000
Browning-Ferris Industries:			7.5%, 1/1/2013	1,440,000	1,562,400
7.4%, 9/15/2035	830,000	726,250	Technical Olympic USA, Inc.:		
9.25%, 5/1/2021	485,000	516,525	7.5%, 3/15/2011	405,000	408,038
Centveo Corp., 7.875%, 12/1/2013 (e)	1,275,000	1,185,750	10.375%, 7/1/2012	1,210,000	1,355,200
Clean Harbors, Inc., 144A, 11.25%, 7/15/2012	715,000	800,800	Texas Genco LLC, 144A, 6.875%, 12/15/2014	1,155,000	1,193,981
Collins & Aikman Floor Cover, Series B, 9.75%, 2/15/2010	2,105,000	2,262,875	The Brickman Group, Ltd., Series B, 11.75%, 12/15/2009	770,000	900,900
Collins & Aikman Products, 10.75%, 12/31/2011 (e)	1,150,000	1,173,000	Thermadyne Holdings Corp., 9.25%, 2/1/2014	825,000	804,375
Congoleum Corp., 8.625%, 8/1/2008*	595,000	600,950	United Rentals North America, Inc.:		
Continental Airlines, Inc., 8.0%, 12/15/2005 (e)	1,040,000	1,014,000	6.5%, 2/15/2012	1,140,000	1,111,500
Cornell Companies, Inc., 10.75%, 7/1/2012	1,360,000	1,453,500	7.0%, 2/15/2014 (e)	930,000	869,550
Corrections Corp. of America, 9.875%, 5/1/2009	1,285,000	1,426,350	7.75%, 11/15/2013 (e)	580,000	568,400
Dana Corp., 7.0%, 3/1/2029	1,535,000	1,531,163	Westlake Chemical Corp., 8.75%, 7/15/2011	110,000	124,300
				<b>49,724,476</b>	
			<b>Information Technology 1.3%</b>		
			Activant Solutions, Inc., 10.5%, 6/15/2011	1,075,000	1,155,625
			Itron, Inc., 144A, 7.75%, 5/15/2012	705,000	717,337
			Lucent Technologies, Inc.:		
			6.45%, 3/15/2029 (e)	3,055,000	2,764,775
			7.25%, 7/15/2006 (e)	400,000	418,000

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

	Principal Amount (\$)(c)	Value (\$)		Principal Amount (\$)(c)	Value (\$)
Spheris, Inc., 144A, 11.0%, 12/15/2012	605,000	620,125	Sheffield Steel Corp., 144A, 11.375%, 8/15/2011	595,000	612,850
		<b>5,675,862</b>	TriMas Corp., 9.875%, 6/15/2012	2,630,000	2,787,800
<b>Materials 11.1%</b>			United States Steel LLC: 9.75%, 5/15/2010	1,254,000	1,429,560
Aqua Chemical, Inc., 11.25%, 7/1/2008	1,220,000	976,000	10.75%, 8/1/2008 (e)	155,000	182,513
ARCO Chemical Co., 9.8%, 2/1/2020 (e)	4,955,000	5,648,700			<b>49,795,733</b>
Associated Materials, Inc., Step-up Coupon, 0% to 3/1/2009, 11.25% to 3/1/2014	2,765,000	1,990,800	<b>Telecommunication Services 8.6%</b>		
Caraustar Industries, Inc., 9.875%, 4/1/2011 (e)	1,040,000	1,128,400	AirGate PCS, Inc., 144A, 5.85%**, 10/15/2011	505,000	518,888
Constar International, Inc., 11.0%, 12/1/2012 (e)	1,185,000	1,229,438	American Cellular Corp., Series B, 10.0%, 8/1/2011	3,515,000	3,014,112
Dayton Superior Corp.: 10.75%, 9/15/2008	1,030,000	1,102,100	American Tower Corp., 144A, 7.125%, 10/15/2012	580,000	593,050
13.0%, 6/15/2009 (e)	2,350,000	2,444,000	AT&T Corp.: 9.05%, 11/15/2011	1,205,000	1,387,256
GEO Specialty Chemicals, Inc.: 1.0%, 12/31/2009*	368,000	368,000	9.75%, 11/15/2031	1,170,000	1,396,688
10.125%, 8/1/2008*	765,000	443,700	Cincinnati Bell, Inc., 8.375%, 1/15/2014 (e)	4,425,000	4,480,312
Georgia-Pacific Corp.: 8.0%, 1/15/2024	2,820,000	3,271,200	Crown Castle International Corp., 9.375%, 8/1/2011	720,000	806,400
9.375%, 2/1/2013	1,320,000	1,537,800	Dobson Cellular Systems, Inc., 144A, 6.96%** , 11/1/2011	450,000	465,750
Hercules, Inc.: 6.75%, 10/15/2029	855,000	882,788	Dobson Communications Corp., 8.875%, 10/1/2013	1,255,000	881,637
11.125%, 11/15/2007	1,220,000	1,451,800	GCI, Inc., 7.25%, 2/15/2014	840,000	840,000
Hexcel Corp., 9.75%, 1/15/2009 (e)	980,000	1,019,200	Insight Midwest LP, 9.75%, 10/1/2009 (e)	610,000	638,975
Huntsman Advanced Materials, 144A, 11.0%, 7/15/2010	1,225,000	1,457,750	IWO Escrow Co., 144A, 6.32%** , 1/15/2012	100,000	100,750
Huntsman International LLC: 144A, 7.375%, 1/1/2015 (e)	355,000	355,888	LCI International, Inc., 7.25%, 6/15/2007	1,610,000	1,565,725
144A, 7.5%, 1/1/2015	205,000	278,646	Level 3 Financing, Inc., 144A, 10.75%, 10/15/2011 (e)	605,000	547,525
Huntsman LLC, 11.625%, 10/15/2010	1,610,000	1,903,825	MCI, Inc., 8.735%, 5/1/2014	3,360,000	3,612,000
IMC Global, Inc., 10.875%, 8/1/2013 (e)	115,000	143,750	Nextel Communications, Inc., 5.95%, 3/15/2014	705,000	729,675
Intermet Corp.: 144A, 1.0%, 3/31/2009	2,000,000	1,750,000	Nextel Partners, Inc., 8.125%, 7/1/2011	950,000	1,054,500
9.75%, 6/15/2009* (e)	600,000	294,000	Northern Telecom Capital, 7.875%, 6/15/2026 (e)	865,000	856,350
International Steel Group, Inc., 6.5%, 4/15/2014	2,245,000	2,407,762	PanAmSat Corp., 144A, 9.0%, 8/15/2014	2,160,000	2,411,100
MMI Products, Inc., Series B, 11.25%, 4/15/2007	1,015,000	1,030,225	Qwest Corp., 7.25%, 9/15/2025	3,390,000	3,296,775
Neenah Corp.: 144A, 11.0%, 9/30/2010	1,922,000	2,123,810	Qwest Services Corp.: 6.95%, 6/30/2010	1,665,000	1,709,331
144A, 13.0%, 9/30/2013	1,102,460	1,130,021	144A, 13.5%, 12/15/2010	1,940,000	2,332,850
Omnova Solutions, Inc., 11.25%, 6/1/2010	1,595,000	1,794,375	144A, 14.0%, 12/15/2014	1,550,000	1,960,750
Owens-Brockway Glass Container, 8.25%, 5/15/2013	400,000	440,000	Rural Cellular Corp., 9.875%, 2/1/2010 (e)	895,000	910,662
Oxford Automotive, Inc., 144A, 12.0%, 10/15/2010* (e)	1,975,000	1,244,250	SBA Telecom, Inc., Step-up Coupon, 0% to 12/15/2007, 9.75% to 12/15/2011	405,000	341,213
Pliant Corp.: Step-up Coupon, 0% to 12/15/2006, 11.125% to 6/15/2009	220,000	203,225	Triton PCS, Inc., 8.5%, 6/1/2013	695,000	670,675
11.125%, 9/1/2009	1,385,000	1,509,650	Ubiquitel Operating Co., 9.875%, 3/1/2011	190,000	213,275
Portola Packaging, Inc., 8.25%, 2/1/2012 (e)	910,000	718,900	US Unwired, Inc., Series B, 10.0%, 6/15/2012 (e)	1,210,000	1,364,275
Rockwood Specialties Group, Inc., 144A, 7.625%, 11/15/2014	1,790,000	2,503,007	Western Wireless Corp., 9.25%, 7/15/2013	200,000	217,500
					<b>38,917,999</b>
			<b>Utilities 3.8%</b>		
			AES Corp., 144A, 8.75%, 5/15/2013	395,000	448,819

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	Principal Amount (\$)(c)	Value (\$)
Allegheny Energy Supply Co. LLC: 144A, 8.25%, 4/15/2012 (e)	765,000	854,887
144A, 10.25%, 11/15/2007	15,000	17,025
Aquila, Inc., 14.875%, 7/1/2012	405,000	567,506
Calpine Corp.: 8.25%, 8/15/2005 (e)	1,065,000	1,075,650
144A, 8.5%, 7/15/2010 (e)	1,495,000	1,281,962
CMS Energy Corp., 8.5%, 4/15/2011	150,000	170,438
DPL, Inc., 6.875%, 9/1/2011	2,795,000	3,052,509
Midwest Generation LLC, 8.75%, 5/1/2034	585,000	663,975
Mission Energy Holding Co., 13.5%, 7/15/2008	205,000	255,738
NorthWestern Corp., 144A, 5.875%, 11/1/2014 (e)	385,000	393,844
NRG Energy, Inc., 144A, 8.0%, 12/15/2013	3,585,000	3,907,650
PSE&G Energy Holdings LLC: 8.5%, 6/15/2011	1,115,000	1,272,494
10.0%, 10/1/2009	1,350,000	1,596,375
TNP Enterprises, Inc., Series B, 10.25%, 4/1/2010	1,460,000	1,558,550
		<b>17,117,422</b>
<b>Total Corporate Bonds (Cost \$321,181,919)</b>		<b>327,273,997</b>

#### Asset Backed 0.6%

Golden Tree High Yield Opportunities LP, "D1", Series 1, 13.054%, 10/31/2007 (Cost \$2,500,000)	2,500,000	2,582,250
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#### Foreign Bonds — US\$ Denominated 20.1%

##### Consumer Discretionary 2.7%

Advertising Directory Solutions, Inc., 144A, 9.25%, 11/15/2012 (e)	810,000	850,500
Grupo Posadas SA de CV, 144A, Series A, 8.75%, 10/4/2011	10,000	10,675
Jafra Cosmetics International, Inc., 10.75%, 5/15/2011	1,705,000	1,926,650
Kabel Deutschland GmbH, 144A, 10.625%, 7/1/2014	1,775,000	2,041,250
Shaw Communications, Inc.: 7.2%, 12/15/2011 (e)	195,000	215,231
7.25%, 4/6/2011 (e)	730,000	804,825
8.25%, 4/11/2010	2,510,000	2,855,125
Telenet Group Holding NV, 144A, Step-up Coupon, 0% to 12/15/2008, 11.5% to 6/15/2014	1,745,000	1,326,200
Vicap SA, 11.375%, 5/15/2007	395,000	399,938
Vitro Envases Norteamerica SA, 144A, 10.75%, 7/23/2011	655,000	679,563
Vitro SA de CV, Series A, 144A, 11.75%, 11/1/2013 (e)	1,225,000	1,185,187
		<b>12,295,144</b>

##### Consumer Staples 1.0%

Burns, Philip Capital Property Ltd., 10.75%, 2/15/2011	1,055,000	1,186,875
Fage Dairy Industry SA, 9.0%, 2/1/2007	2,913,000	2,927,565

	Principal Amount (\$)(c)	Value (\$)
Grupo Cosan SA, 144A, 9.0%, 11/1/2009	375,000	391,875
		<b>4,506,315</b>

##### Energy 2.3%

Gazprom OAO, 144A, 9.625%, 3/1/2013	1,975,000	2,330,500
Luscar Coal Ltd., 9.75%, 10/15/2011	1,415,000	1,606,025
Petroleum Geo-Services ASA, 10.0%, 11/5/2010	4,755,066	5,420,775
Secunda International Ltd., 144A, 9.76%**, 9/1/2012	1,005,000	984,900
		<b>10,342,200</b>

##### Financials 1.0%

Conproca SA de CV, 12.0%, 6/16/2010	920,000	1,159,200
Eircom Funding, 8.25%, 8/15/2013	1,160,000	1,281,800
Mizuho Financial Group, 8.375%, 12/29/2049	590,000	646,581
New ASAT (Finance) Ltd., 144A, 9.25%, 2/1/2011	1,375,000	1,247,812
		<b>4,335,393</b>

##### Health Care 0.2%

Biovail Corp., 7.875%, 4/1/2010 (e)	760,000	786,600
Elan Financial PLC, 144A, 7.75%, 11/15/2011	225,000	239,625
		<b>1,026,225</b>

##### Industrials 2.1%

CP Ships Ltd., 10.375%, 7/15/2012	1,280,000	1,476,800
Grupo Transportacion Ferroviaria Mexicana SA de CV: 10.25%, 6/15/2007	2,480,000	2,641,200
11.75%, 6/15/2009	1,510,000	1,538,313
12.5%, 6/15/2012	1,451,000	1,694,042
LeGrand SA, 8.5%, 2/15/2025	1,235,000	1,457,300
Stena AB: 144A, 7.0%, 12/1/2016	385,000	381,150
9.625%, 12/1/2012	395,000	446,350
Supercanal Holding SA, 11.5%, 5/15/2005*	100,000	9,000
		<b>9,644,155</b>

##### Information Technology 0.6%

Flextronics International Ltd., 144A, 6.25%, 11/15/2014	1,480,000	1,465,200
Magnachip Semiconductor SA: 144A, 6.875%, 12/15/2011	510,000	525,300
144A, 8.0%, 12/15/2014	485,000	505,612
		<b>2,496,112</b>

##### Materials 3.6%

Alosa Finance SA, 144A, 8.875%, 11/17/2014	955,000	981,263
Avecia Group PLC, 11.0%, 7/1/2009	2,815,000	2,899,450
Cascades, Inc.: 7.25%, 2/15/2013	1,695,000	1,796,700
144A, 7.25%, 2/15/2013	95,000	100,700
Citigroup (JSC Severstal), 144A, 9.25%, 4/19/2014	1,410,000	1,402,950
Citigroup Global (Severstal), 8.625%, 2/24/2009	124,000	124,508

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

	Principal Amount (\$)(c)	Value (\$)
Corp. Durango SA: 13.125%, 8/1/2006*	350,000	236,250
144A, 13.75%, 7/15/2009*	350,000	234,500
Crown Euro Holdings SA, 10.875%, 3/1/2013	895,000	1,058,337
ISPAT Inland ULC, 9.75%, 4/1/2014	1,141,000	1,409,135
Rhodia SA, 8.875%, 6/1/2011 (e)	950,000	957,125
Sino-Forest Corp., 144A, 9.125%, 8/17/2011	635,000	693,738
Tembec Industries, Inc., 8.5%, 2/1/2011 (e)	4,475,000	4,497,375
		<b>16,392,031</b>

#### Sovereign Bonds 1.8%

Aries Vermögensverwaltung GmbH, 144A, Series C, 9.6%, 10/25/2014	1,500,000	1,845,000
Dominican Republic, 144A, 9.04%, 1/23/2013	510,000	422,025
Federative Republic of Brazil, 8.875%, 10/14/2019	1,545,000	1,628,430
Republic of Argentina: 11.375%, 3/15/2010*	1,980,000	673,200
Series BGL5, 11.375%, 1/30/2017*	775,000	263,500
11.375%, 6/15/2015*	475,000	160,313
11.75%, 4/7/2009*	1,340,000	455,600
Series 2031, 12.0%, 6/19/2031*	376,300	123,238
12.375%, 2/21/2012* (e)	1,205,000	406,687
Republic of Turkey: 7.25%, 3/15/2015 (e)	710,000	729,525
9.0%, 6/30/2011	440,000	502,700
9.5%, 1/15/2014	260,000	306,800
Republic of Uruguay, 7.875%, 1/15/2033 (PIK)	999	887
Russian Ministry of Finance, Series VII, 3.0%, 5/14/2011	470,000	396,351
		<b>7,914,256</b>

#### Telecommunication Services 4.3%

Alestra SA de RL de CV, 8.0%, 6/30/2010	235,000	199,163
Axtel SA, 11.0%, 12/15/2013	1,440,000	1,551,600
Embratel, Series B, 11.0%, 12/15/2008	985,000	1,122,900
Esprit Telecom Group PLC: 10.875%, 6/15/2008*	800,000	80
11.5%, 12/15/2007*	1,625,000	163
Global Crossing UK Finance, 144A, 10.75%, 12/15/2014	1,220,000	1,204,750
Grupo Iusacell SA de CV, Series B, 10.0%, 7/15/2004*	240,000	184,800
Inmarsat Finance PLC, 7.625%, 6/30/2012	1,075,000	1,118,000
Innova S. de R.L., 9.375%, 9/19/2013 (e)	755,000	858,812
INTELSAT, 6.5%, 11/1/2013	1,435,000	1,305,850
Millicom International Cellular SA, 144A, 10.0%, 12/1/2013	2,335,000	2,442,994
Mobifon Holdings BV, 12.5% , 7/31/2010	1,760,000	2,087,800
Mobile Telesystems Financial, 144A, 8.375%, 10/14/2010	805,000	821,100
Nortel Networks Corp., 6.875%, 9/1/2023	1,345,000	1,264,300

	Principal Amount (\$)(c)	Value (\$)
Nortel Networks Ltd., 6.125%, 2/15/2006	4,165,000	4,237,887
Rogers Wireless Communications, Inc., 6.375%, 3/1/2014	880,000	871,200
		<b>19,271,399</b>
<b>Utilities 0.5%</b>		
Calpine Canada Energy Finance, 8.5%, 5/1/2008 (e)	2,690,000	2,205,800
<b>Total Foreign Bonds — US\$ Denominated</b> (Cost \$88,697,061)		<b>90,429,030</b>

#### Foreign Bonds — Non US\$ Denominated 1.7%

##### Consumer Discretionary 0.1%

Victoria Acquisition III BV, 144A, 7.875%, 10/1/2014	EUR	460,000	628,381
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##### Industrials 0.5%

Grohe Holdings GmbH, 144A, 8.625%, 10/1/2014	EUR	1,375,000	1,999,796
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##### Materials 0.6%

Huntsman International LLC, 10.125%, 7/1/2009	EUR	995,000	1,423,457
Rhodia SA, 9.25%, 6/1/2011	EUR	865,000	1,196,327
			<b>2,619,784</b>

##### Sovereign Bonds 0.5%

Mexican Bonds, Series MI-10, 8.0%, 12/19/2013	MXN	15,202,000	1,214,714
Republic of Argentina: 8.0%, 2/26/2008*	EUR	775,000	310,759
Series FEB, 8.0%, 2/26/2008*	EUR	560,000	222,645
10.25%, 2/6/2049*	EUR	956,116	376,884
10.25%, 11/14/2049*	EUR	465,276	183,403
11.25%, 4/10/2006*	EUR	273,541	116,191
12.0%, 9/19/2016*	EUR	35,790	14,352
			<b>2,438,948</b>

<b>Total Foreign Bonds — Non US\$ Denominated</b> (Cost \$6,648,149)			<b>7,686,909</b>
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#### Convertible Bond 0.5%

DIMON, Inc., 6.25%, 3/31/2007	1,600,000	1,500,000
HIH Capital Ltd.: 144A, Series DOM, 7.5%, 9/25/2006	665,000	658,350
144A, Series EURO, 7.5%, 9/25/2006	85,000	84,150
<b>Total Convertible Bond (Cost \$2,209,763)</b>		<b>2,242,500</b>

#### Common Stocks 0.0%

Catalina Restaurant Group, Inc.*	3,870	6,192
IMPSTAT Fiber Networks, Inc.*	33,652	193,499
<b>Total Common Stocks (Cost \$1,938,197)</b>		<b>199,691</b>

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

	Shares	Value (\$)
<b>Warrants 0.0%</b>		
Dayton Superior Corp., 144A*	90	1
DeCrane Aircraft Holdings, Inc., 144A*	1,350	14
Destia Communications, Inc., 144A*	1,260	0
Hayes Lemmerz International, Inc.*	1,690	642
TravelCenters of America, Inc.*	280	1,400
UIH Australia Pacific, Inc.*	750	0
<b>Total Warrants (Cost \$1,583)</b>		<b>2,057</b>

<b>Preferred Stocks 0.5%</b>		
Paxson Communications Corp., 14.25%, (PIK)	199	1,462,650
TNP Enterprises, Inc., 14.5%, "D", (PIK)	8,000	928,000
<b>Total Preferred Stocks (Cost \$2,734,260)</b>		<b>2,390,650</b>

<b>Other Investments 0.7%</b>		
Hercules Trust II, (Bond Unit)	3,680,000	3,091,200

	Shares	Value (\$)
SpinCycle, Inc., "F" (Common Stock Unit)*	69	76
SpinCycle, Inc., (Common Stock Unit)*	9,913	10,904
<b>Total Other Investments (Cost \$2,667,709)</b>		<b>3,102,180</b>

<b>Securities Lending Collateral 16.6%</b>		
Daily Assets Fund Institutional, 2.25% (d) (f) (Cost \$74,814,217)	74,814,217	<b>74,814,217</b>

<b>Cash Equivalents 1.6%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$7,191,545)	7,191,545	<b>7,191,545</b>
	<b>% of Net Assets</b>	<b>Value (\$)</b>
<b>Total Investment Portfolio (Cost \$510,584,403) (a)</b>	115.0	<b>517,915,026</b>
<b>Other Assets and Liabilities, Net</b>	(15.0)	<b>(67,715,584)</b>
<b>Net Assets</b>	100.0	<b>450,199,442</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. The following table represents bonds that are in default.

Security	Coupon	Maturity Date	Principal Amount	Acquisition Cost	Value
Congoleum Corp.	8.625	8/1/2008	595,000 USD	\$ 441,519	\$ 600,950
Corp. Durango SA:					
	13.125	8/1/2006	350,000 USD	179,500	236,250
	13.75	7/15/2009	350,000 USD	337,395	234,500
Dyersburg Corp.	9.75	9/1/2007	1,260,000 USD	1,291,288	126
Esprit Telecom Group PLC:					
	10.875	6/15/2008	800,000 USD	792,956	80
	11.5	12/15/2007	1,625,000 USD	1,628,444	163
FRD Acquisition Co.	12.5	7/15/2004	210,000 USD	0	0
GEO Specialty Chemicals, Inc.					
	1	12/31/2009	368,000 USD	368,000	368,000
	10.125	8/1/2008	765,000 USD	262,225	443,700
Grupo Iusacell SA de CV	10	7/15/2004	240,000 USD	144,738	184,800
GS Technologies Operating Co., Inc.	12	9/1/2024	315,268 USD	314,686	788
Imperial Home Decor Group, Inc.	11	3/15/2008	1,050,000 USD	1,029,755	0
Intermet Corp.					
	9.75	6/15/2009	600,000 USD	248,411	294,000
Oxford Automotive, Inc.	12	10/15/2010	1,975,000 USD	1,321,584	1,244,250

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

Security	Coupon	Maturity Date	Principal Amount	Acquisition Cost	Value
Republic of Argentina:					
	8	2/26/2008	775,000 EUR	224,642	310,759
	8	2/26/2008	560,000 EUR	180,836	222,645
	10.25	2/6/2049	956,116 EUR	209,225	376,884
	10.25	11/14/2049	465,276 EUR	99,469	183,403
	11.25	4/10/2006	273,541 EUR	85,600	116,191
	11.375	3/15/2010	1,980,000 USD	534,600	673,200
	11.375	1/30/2017	775,000 USD	232,985	263,500
	11.375	6/15/2015	475,000 USD	148,308	160,313
	11.75	4/7/2009	1,340,000 USD	430,150	455,600
	12	9/19/2016	35,790 EUR	8,225	7,338
	12	6/19/2031	376,300 USD	81,845	123,238
	12.375	2/21/2012	1,205,000 USD	334,939	406,687
Supercanal Holding SA	11.5	5/15/2005	100,000 USD	36,505	9,000
Trump Holdings & Funding	12.625	3/15/2010	885,000 USD	903,435	958,013
				<b>\$ 11,871,265</b>	<b>\$ 7,874,378</b>

\*\* 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, 2004.

- (a) The cost for federal income tax purposes was \$510,755,235. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$7,159,791. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$18,263,308 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$11,103,517.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Principal amount stated in US dollars unless otherwise noted.
- (d) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (e) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004, amounted to \$73,177,211, which is 16.3% of total net assets.
- (f) Represents collateral held in connection with securities lending.

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

PIK denotes that interest and dividend is paid in kind.

#### Currency Abbreviation

EUR	Euro
MXN	Mexican Peso

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$428,578,641) — including \$73,177,211 of securities loaned	\$ 435,909,264
Investment in Daily Assets Fund Institutional (cost \$74,814,217)*	74,814,217
Investment in Scudder Cash Management QP Trust (cost \$7,191,545)	7,191,545
Total investments in securities, at value (cost \$510,584,403)	517,915,026
Cash	143,928
Foreign currency, at value (cost \$37,247)	37,816
Receivable for investments sold	3,372,406
Interest receivable	8,856,107
Receivable for Portfolio shares sold	52,070
Other assets	13,291
<b>Total assets</b>	<b>530,390,644</b>

### Liabilities

Payable upon return of securities loaned	74,814,217
Payable for investments purchased	3,215,607
Payable for Portfolio shares redeemed	553,570
Unrealized depreciation on forward foreign currency exchange contracts	884,605
Net payable on closed forward foreign currency exchange contract	343,717
Accrued management fee	232,383
Other accrued expenses and payables	147,103
Total liabilities	80,191,202
<b>Net assets, at value</b>	<b>\$ 450,199,442</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	34,372,843
Net unrealized appreciation (depreciation) on:	
Investments	7,330,623
Foreign currency related transactions	(867,532)
Accumulated net realized gain (loss)	(113,027,989)
Paid-in capital	522,391,497
<b>Net assets, at value</b>	<b>\$ 450,199,442</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$393,438,214 ÷ 44,826,321 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 8.78</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$56,761,228 ÷ 6,474,194 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 8.77</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends	\$ 553,283
Interest	36,445,585
Interest — Scudder Cash Management QP Trust	119,706
Securities lending income, including income from Daily Assets Fund Institutional	124,889
<b>Total Income</b>	<b>37,243,463</b>
Expenses:	
Management fee	2,547,280
Custodian fees	60,081
Distribution service fees (Class B)	116,895
Record keeping fees (Class B)	61,482
Auditing	53,376
Legal	3,356
Trustees' fees and expenses	5,863
Reports to shareholders	134,828
Other	30,569
Total expenses, before expense reductions	3,013,730
Expense reductions	(8,909)
Total expenses, after expense reductions	3,004,821
<b>Net investment income</b>	<b>34,238,642</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	9,835,203
Foreign currency related transactions	(364,967)
	9,470,236
Net unrealized appreciation (depreciation) during the period on:	
Investments	6,010,970
Foreign currency related transactions	(719,594)
	5,291,376
<b>Net gain (loss) on investment transactions</b>	<b>14,761,612</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 49,000,254</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,	
	2004	2003
Operations:		
Net investment income	\$ 34,238,642	\$ 33,045,620
Net realized gain (loss) on investment transactions	9,470,236	(3,182,002)
Net unrealized appreciation (depreciation) on investment transactions during the period	5,291,376	53,500,177
Net increase (decrease) in net assets resulting from operations	49,000,254	83,363,795
Distributions to shareholders from:		
Net investment income		
Class A	(29,352,659)	(29,871,076)
Class B	(3,056,845)	(462,410)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	56,878,387	120,856,182
Reinvestment of distributions	29,352,659	29,871,076
Cost of shares redeemed	(119,443,412)	(117,016,053)
Net increase (decrease) in net assets from Class A share transactions	(33,212,366)	33,711,205
<b>Class B</b>		
Proceeds from shares sold	37,277,037	36,410,776
Reinvestment of distributions	3,056,845	462,410
Cost of shares redeemed	(23,434,006)	(3,751,439)
Net increase (decrease) in net assets from Class B share transactions	16,899,876	33,121,747
<b>Increase (decrease) in net assets</b>	<b>278,260</b>	<b>119,863,261</b>
Net assets at beginning of period	449,921,182	330,057,921
Net assets at end of period (including undistributed net investment income of \$34,372,843 and \$32,285,235, respectively)	<b>\$ 450,199,442</b>	<b>\$ 449,921,182</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	48,977,744	44,487,776
Shares sold	6,841,589	15,606,467
Shares issued to shareholders in reinvestment of distributions	3,696,808	4,207,191
Shares redeemed	(14,689,820)	(15,323,690)
Net increase (decrease) in Portfolio shares	(4,151,423)	4,489,968
Shares outstanding at end of period	<b>44,826,321</b>	<b>48,977,744</b>
<b>Class B</b>		
Shares outstanding at beginning of period	4,421,727	136,396
Shares sold	4,504,371	4,693,294
Shares issued to shareholders in reinvestment of distributions	384,026	65,037
Shares redeemed	(2,835,930)	(473,000)
Net increase (decrease) in Portfolio shares	2,052,467	4,285,331
Shares outstanding at end of period	<b>6,474,194</b>	<b>4,421,727</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001 <sup>a</sup>	2000 <sup>b</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.43	\$ 7.40	\$ 8.13	\$ 9.16	\$ 11.46
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>c</sup>	.67	.67	.75	.84	1.14
Net realized and unrealized gain (loss) on investment transactions	.31	1.03	(.74)	(.59)	(2.04)
<b>Total from investment operations</b>	<b>.98</b>	<b>1.70</b>	<b>.01</b>	<b>.25</b>	<b>(.90)</b>
<i>Less distributions from:</i>					
Net investment income	(.63)	(.67)	(.74)	(1.28)	(1.40)
<b>Net asset value, end of period</b>	<b>\$ 8.78</b>	<b>\$ 8.43</b>	<b>\$ 7.40</b>	<b>\$ 8.13</b>	<b>\$ 9.16</b>
Total Return (%)	12.42	24.62	(.30)	2.63	(8.68)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	393	413	329	335	309
Ratio of expenses (%)	.66	.67	.66	.70	.68
Ratio of net investment income (%)	8.11	8.62	10.07	9.89	11.23
Portfolio turnover rate (%)	162	165	138	77	54

<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.

<sup>c</sup> Based on average shares outstanding during the period.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 8.41	\$ 7.39	\$ 7.21
<i>Income (loss) from investment operations:</i>			
Net investment income <sup>b</sup>	.64	.64	.31
Net realized and unrealized gain (loss) on investment transactions	.32	1.03	(.13)
<b>Total from investment operations</b>	<b>.96</b>	<b>1.67</b>	<b>.18</b>
<i>Less distributions from:</i>			
Net investment income	(.60)	(.65)	—
<b>Net asset value, end of period</b>	<b>\$ 8.77</b>	<b>\$ 8.41</b>	<b>\$ 7.39</b>
Total Return (%)	12.08	24.14	2.50**
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	57	37	1
Ratio of expenses (%)	1.06	1.06	.92*
Ratio of net investment income (%)	7.71	8.23	8.78*
Portfolio turnover rate (%)	162	165	138**

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized \*\* Not annualized

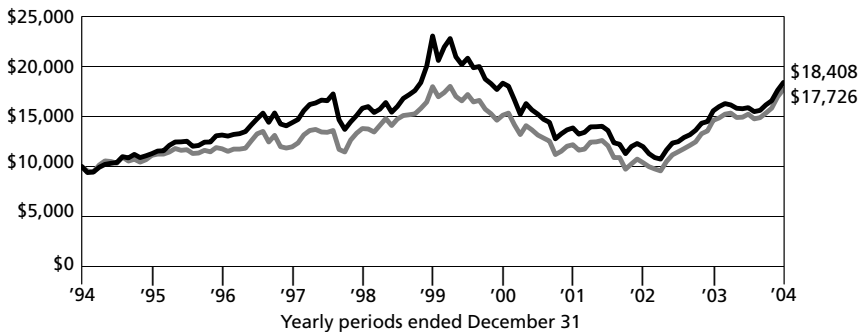
## Scudder International Select Equity Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in Scudder International Select Equity Portfolio from 12/31/1994 to 12/31/2004

- Scudder International Select Equity Portfolio — Class A
- MSCI EAFE + EM Index



The MSCI EAFE + EM Index (Morgan Stanley Capital International Europe, Australasia, Far East + Emerging Markets Index) is an unmanaged index generally accepted as a benchmark for major overseas markets plus emerging markets. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder International Select Equity Portfolio		1-Year	3-Year	5-Year	10-Year
Class A	Growth of \$10,000	\$11,825	\$13,282	\$7,981	\$18,408
	Average annual total return	18.25%	9.92%	-4.41%	6.29%
MSCI EAFE + EM Index	Growth of \$10,000	\$12,126	\$14,544	\$9,853	\$17,726
	Average annual total return	21.26%	13.30%	-.30%	5.89%
Scudder International Select Equity Portfolio				1-Year	Life of Class*
Class B	Growth of \$10,000			\$11,784	\$13,485
	Average annual total return			17.84%	12.69%
MSCI EAFE + EM Index	Growth of \$10,000			\$12,126	\$14,687
	Average annual total return			21.26%	16.62%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## Scudder International Select Equity Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,158.60	\$ 1,156.80
Expenses Paid per \$1,000*	\$ 4.94	\$ 6.83
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,020.62	\$ 1,018.87
Expenses Paid per \$1,000*	\$ 4.63	\$ 6.40

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — Scudder International Select Equity Portfolio	.91%	1.26%

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

## Scudder International Select Equity Portfolio

Continued strength in corporate earnings and worldwide economic growth provided a positive underpinning for international equities in 2004. For US investors, the rising value of foreign currencies in relation to the dollar provided an additional boost to performance. The Class A shares of the portfolio produced a positive absolute return of 18.25% (Class A shares, unadjusted for contract charges) during the year ended December 31, 2004, but lagged the 21.26% return of the MSCI EAFE Plus EM Index.

Performance was helped by strong stock selection in the materials, energy and information technology sectors. Materials and energy delivered robust returns, as commodities exporters in those sectors benefited from their exposure to China's growth. Examples include the materials companies POSCO (Korea) (1.2% of net assets as of December 31) and BHP Billiton PLC (United Kingdom) (.97% of net assets), and the energy companies Eni SpA (Italy) (2.9% of net assets) and Total S.A. (France) (3.2% of net assets%). Performance was hurt by exposure to sectors that are sensitive to rising energy and input costs, such as the industrials stock A.P. Moller Maersk\*, which was unable to pass on higher transport costs to customers; and consumer staples companies such as Nestle S.A. and Henckel\*, whose margins were also pressured by rising input costs and heightened competition.

We continue to emphasize companies with pricing power. In an environment of slow to moderate demand growth, the ability to raise prices will enable companies to maintain their profit margins even if input costs increase. In addition, we continue to look for opportunities to invest in companies positioned to take advantage of the burgeoning consumer sector in Asia.

Alex Tedder

Lead Portfolio Manager

Matthias Knerr

Sangita Uberoi

Managers

Deutsche Asset Management Investment Services Ltd., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The MSCI EAFE + EM Index (Morgan Stanley Capital International Europe, Australasia, Far East + Emerging Markets Free Index) is an unmanaged index generally accepted as a benchmark for major overseas markets plus emerging markets. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates. Index returns assume reinvestment of all distributions and do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*\*This security was not held in the portfolio at the end of the reporting period.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## Scudder International Select Equity Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	99%	96%
Cash Equivalents	1%	2%
Preferred Stocks	—	2%
	100%	100%

<b>Geographical Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Continental Europe	51%	50%
Japan	19%	22%
United Kingdom	18%	23%
Asia (excluding Japan)	12%	5%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	27%	25%
Consumer Discretionary	14%	18%
Industrials	13%	10%
Energy	10%	7%
Telecommunication Services	8%	8%
Information Technology	8%	6%
Health Care	8%	8%
Materials	5%	7%
Consumer Staples	4%	7%
Utilities	3%	4%
	100%	100%

*Asset allocation, geographical and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 80. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder International Select Equity Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 95.7%</b>					
<b>Belgium 2.0%</b>					
Belgacom SA* (Cost \$3,863,300)	108,000	4,668,207			
<b>China 1.7%</b>					
PetroChina Co., Ltd. "H" (Cost \$3,606,829)	7,467,670	3,987,138			
<b>France 7.7%</b>					
Christian Dior SA	48,900	3,326,689			
Credit Agricole SA	159,709	4,819,274			
Total SA	33,461	7,308,934			
Vinci SA (d)	17,300	2,323,284			
(Cost \$12,687,700)		<b>17,778,181</b>			
<b>Germany 10.6%</b>					
Adidas-Salomon AG	30,200	4,874,609			
E.ON AG	65,400	5,961,294			
Hypo Real Estate Holdings AG*	119,200	4,941,688			
Metro AG	97,063	5,341,961			
Siemens AG	39,900	3,383,121			
(Cost \$16,029,706)		<b>24,502,673</b>			
<b>Greece 2.3%</b>					
Alpha Bank AE (Cost \$4,010,044)	153,600	5,357,314			
<b>Hong Kong 2.0%</b>					
Swire Pacific Ltd. "A" (Cost \$3,859,366)	545,831	4,564,568			
<b>India 1.6%</b>					
State Bank of India (GDR) (Cost \$2,998,549)	99,566	3,634,159			
<b>Ireland 2.2%</b>					
CRH PLC (Cost \$3,172,767)	191,458	5,126,713			
<b>Italy 3.0%</b>					
Eni SpA (Cost \$4,061,818)	271,560	6,799,151			
<b>Japan 18.6%</b>					
Canon, Inc.	97,800	5,277,974			
Credit Saison Co., Ltd.	130,400	4,746,677			
Daito Trust Construction Co., Ltd.	107,900	5,128,067			
KDDI Corp.	400	2,154,777			
Kirin Brewery Co., Ltd.	465,900	4,587,617			
Millea Holdings, Inc.	250	3,708,402			
Mitsubishi Corp.	417,000	5,387,996			
SMC Corp.	36,800	4,212,589			
Toyota Motor Corp.	130,200	5,298,468			
Trend Micro, Inc.	42,000	2,266,615			
(Cost \$31,971,638)		<b>42,769,182</b>			
<b>Korea 3.8%</b>					
POSCO (ADR) (d)	64,100	2,854,373			
Samsung Electronics Co., Ltd. (GDR), 144A	26,940	5,899,860			
(Cost \$8,345,830)		<b>8,754,233</b>			
<b>Netherlands 6.8%</b>					
European Aeronautic Defense & Space Co.	125,800	3,657,553			
ING Groep NV	245,255	7,420,656			
TPG NV	166,700	4,527,207			
(Cost \$12,495,804)		<b>15,605,416</b>			
<b>Singapore 2.0%</b>					
DBS Group Holdings Ltd. (Cost \$4,078,758)	471,315	4,648,476			
<b>Spain 6.8%</b>					
Indra Sistemas SA	303,000	5,176,988			
Industria de Diseno Textil SA	149,400	4,406,660			
Telefonica SA	322,630	6,078,091			
(Cost \$11,357,163)		<b>15,661,739</b>			
<b>Switzerland 7.7%</b>					
Credit Suisse Group	166,500	6,999,121			
Nestle SA (Registered)	16,566	4,334,170			
Roche Holding AG	56,280	6,478,807			
(Cost \$14,154,265)		<b>17,812,098</b>			
<b>United Kingdom 16.9%</b>					
BHP Billiton PLC	191,550	2,245,158			
Centrica PLC	717,600	3,254,867			
GlaxoSmithKline PLC	253,600	5,949,760			
HSBC Holdings PLC	315,200	5,319,295			
Royal Bank of Scotland Group PLC	116,485	3,918,168			
Smith & Nephew PLC	428,088	4,380,657			
Trinity Mirror PLC	324,893	3,967,130			
Vodafone Group PLC	2,192,721	5,946,355			
WPP Group PLC	364,600	4,010,979			
(Cost \$31,606,411)		<b>38,992,369</b>			
<b>Total Common Stocks</b> (Cost \$168,299,949)					<b>220,661,617</b>
<b>Securities Lending Collateral 2.1%</b>					
Daily Assets Fund Institutional, 2.25% (c) (e) (Cost \$4,791,625)	4,791,625	4,791,625			
<b>Cash Equivalents 1.0%</b>					
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$2,321,041)	2,321,041	2,321,041			
			<b>% of</b>	<b>Value (\$)</b>	
			<b>Net Assets</b>		
<b>Total Investment Portfolio</b> (Cost \$175,412,615) (a)	98.8	227,774,283			
<b>Other Assets and Liabilities, Net</b>	1.2	2,795,917			
<b>Net Assets</b>	100.0	230,570,200			

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

## Notes to Scudder International Select Equity Portfolio of Investments

\* *Non-income producing security.*

- (a) *The cost for federal income tax purposes was \$178,972,673. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$48,801,610. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$49,317,375 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$515,765.*
- (b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*
- (c) *Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*
- (d) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004, amounted to \$4,614,982, which is 2.0% of total net assets.*
- (e) *Represents collateral held in connection with securities lending.*

*ADR: American Depositary Receipts*

*GDR: Global Depositary Receipts*

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



# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$168,299,949) — including \$4,614,982 of securities loaned	\$ 220,661,617
Investment in Daily Assets Fund Institutional (cost \$4,791,625)*	4,791,625
Investment in Scudder Cash Management QP Trust (cost \$2,321,041)	2,321,041
<b>Total investments in securities, at value (cost \$175,412,615)</b>	<b>227,774,283</b>
Foreign currency, at value (cost \$7,387,345)	7,539,201
Dividends receivable	401,534
Interest receivable	12,042
Receivable for Portfolio shares sold	30,778
Foreign taxes recoverable	187,731
Other assets	6,336
<b>Total assets</b>	<b>235,951,905</b>

### Liabilities

Payable for Portfolio shares redeemed	321,835
Payable upon return of securities loaned	4,791,625
Accrued management fee	158,073
Other accrued expenses and payables	110,172
<b>Total liabilities</b>	<b>5,381,705</b>
<b>Net assets, at value</b>	<b>\$ 230,570,200</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	3,173,342
Net unrealized appreciation (depreciation) on:	
Investments	52,361,668
Foreign currency related transactions	203,574
Accumulated net realized gain (loss)	(50,261,752)
Paid-in capital	225,093,368
<b>Net assets, at value</b>	<b>\$ 230,570,200</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$183,974,883 ÷ 15,442,740 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.91</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$46,595,317 ÷ 3,923,204 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.88</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$537,188)	\$ 4,438,156
Interest — Scudder Cash Management QP Trust	25,694
Securities lending income, including income from Daily Assets Fund Institutional	136,674
<b>Total Income</b>	<b>4,600,524</b>
Expenses:	
Management fee	1,393,551
Custodian fees	146,550
Distribution service fees (Class B)	78,650
Record keeping fees (Class B)	39,095
Auditing	61,780
Legal	22,220
Trustees' fees and expenses	7,780
Reports to shareholders	27,484
Other	8,912
<b>Total expenses, before expense reduction</b>	<b>1,786,022</b>
Expense reduction	(2,084)
<b>Total expenses, after expense reduction</b>	<b>1,783,938</b>
<b>Net investment income (loss)</b>	<b>2,816,586</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	10,217,608
Foreign currency related transactions	436,300
	10,653,908
Net unrealized appreciation (depreciation) during the period on:	
Investments	20,416,088
Foreign currency related transactions	98,838
	20,514,926
<b>Net gain (loss) on investment transactions</b>	<b>31,168,834</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 33,985,420</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 2,816,586	\$ 1,470,136
Net realized gain (loss) on investment transactions	10,653,908	(2,277,480)
Net unrealized appreciation (depreciation) on investment transactions during the period	20,514,926	36,999,340
Net increase (decrease) in net assets resulting from operations	33,985,420	36,191,996
Distributions to shareholders from:		
Net investment income		
Class A	(1,616,136)	(1,518,587)
Class B	(162,336)	(31,424)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	40,441,379	34,706,923
Reinvestment of distributions	1,616,136	1,518,587
Cost of shares redeemed	(30,593,940)	(40,601,242)
Net increase (decrease) in net assets from Class A share transactions	11,463,575	(4,375,732)
<b>Class B</b>		
Proceeds from shares sold	25,663,873	16,228,216
Reinvestment of distributions	162,336	31,424
Cost of shares redeemed	(3,432,245)	(2,025,107)
Net increase (decrease) in net assets from Class B share transactions	22,393,964	14,234,533
<b>Increase (decrease) in net assets</b>	<b>66,064,487</b>	<b>44,500,786</b>
Net assets at beginning of period	164,505,713	120,004,927
Net assets at end of period (including undistributed net investment income of \$3,173,342 and \$1,698,928, respectively)	<b>\$ 230,570,200</b>	<b>\$ 164,505,713</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	14,404,846	15,029,877
Shares sold	3,811,740	4,153,733
Shares issued to shareholders in reinvestment of distributions	154,506	216,015
Shares redeemed	(2,928,352)	(4,994,779)
Net increase (decrease) in Portfolio shares	1,037,894	(625,031)
Shares outstanding at end of period	<b>15,442,740</b>	<b>14,404,846</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,760,419	48,435
Shares sold	2,466,794	1,925,484
Shares issued to shareholders in reinvestment of distributions	15,520	4,470
Shares redeemed	(319,529)	(217,970)
Net increase (decrease) in Portfolio shares	2,162,785	1,711,984
Shares outstanding at end of period	<b>3,923,204</b>	<b>1,760,419</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 10.18	\$ 7.96	\$ 9.24	\$ 14.73	\$ 21.45
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.17	.10	.12	.05	.08
Net realized and unrealized gain (loss) on investment transactions	1.67	2.23	(1.36)	(3.46)	(3.90)
<b>Total from investment operations</b>	<b>1.84</b>	<b>2.33</b>	<b>(1.24)</b>	<b>(3.41)</b>	<b>(3.82)</b>
<i>Less distributions from:</i>					
Net investment income	(.11)	(.11)	(.04)	(.10)	—
Net realized gains on investment transactions	—	—	—	(1.98)	(2.90)
<b>Total distributions</b>	<b>(.11)</b>	<b>(.11)</b>	<b>(.04)</b>	<b>(2.08)</b>	<b>(2.90)</b>
<b>Net asset value, end of period</b>	<b>\$ 11.91</b>	<b>\$ 10.18</b>	<b>\$ 7.96</b>	<b>\$ 9.24</b>	<b>\$ 14.73</b>
Total Return (%)	18.25	29.83	(13.48)	(24.43)	(20.49)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	184	147	120	121	179
Ratio of expenses (%)	.89	.94	.85	.92	.84
Ratio of net investment income (loss) (%)	1.58	1.17	1.46	.44	.47
Portfolio turnover rate (%)	88	139	190	145	87

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period 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

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 10.15	\$ 7.94	\$ 8.98
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.13	.06	.02
Net realized and unrealized gain (loss) on investment transactions	1.67	2.24	(1.06)
<b>Total from investment operations</b>	<b>1.80</b>	<b>2.30</b>	<b>(1.04)</b>
<i>Less distributions from:</i>			
Net investment income	(.07)	(.09)	—
<b>Total distributions</b>	<b>(.07)</b>	<b>(.09)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 11.88</b>	<b>\$ 10.15</b>	<b>\$ 7.94</b>
Total Return (%)	17.84	29.42	(11.58)**
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	47	18	.4
Ratio of expenses (%)	1.28	1.33	1.11*
Ratio of net investment income (loss) (%)	1.19	.78	.54*
Portfolio turnover rate (%)	88	139	190

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

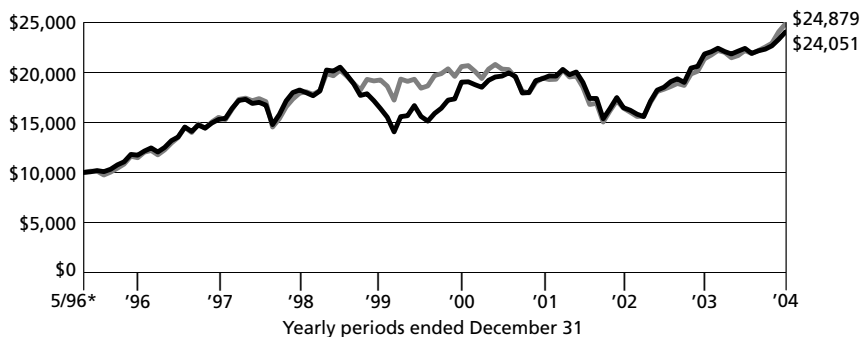
## Scudder Large Cap Value Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

The Portfolio is subject to stock market risk. It focuses its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in Scudder Large Cap Value Portfolio from 5/1/1996 to 12/31/2004

- Scudder Large Cap Value Portfolio — Class A
- Russell 1000 Value Index



The 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. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder Large Cap Value Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$11,007	\$12,408	\$14,678	\$24,051
	Average annual total return	10.07%	7.46%	7.98%	10.65%
Russell 1000 Value Index	Growth of \$10,000	\$11,649	\$12,796	\$12,929	\$24,879
	Average annual total return	16.49%	8.57%	5.27%	11.09%
Scudder Large Cap Value Portfolio		1-Year	Life of Class**		
Class B	Growth of \$10,000	\$10,965	\$12,746		
	Average annual total return	9.65%	10.18%		
Russell 1000 Value Index	Growth of \$10,000	\$11,649	\$13,438		
	Average annual total return	16.49%	12.55%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 1996. Index returns begin April 30, 1996.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## Scudder Large Cap Value Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$1,000.00	\$1,000.00
Ending Account Value 12/31/04	\$1,073.40	\$1,071.30
Expenses Paid per \$1,000*	\$ 4.17	\$ 6.10
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$1,000.00	\$1,000.00
Ending Account Value 12/31/04	\$1,021.18	\$1,019.31
Expenses Paid per \$1,000*	\$ 4.06	\$ 5.95

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — Scudder Large Cap Value Portfolio	.80%	1.17%

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

## Scudder Large Cap Value Portfolio

Scudder Large Cap Value Portfolio (Class A shares, unadjusted for contract charges) posted a total return of 10.07% for the 12-month period ended December 31, 2004. By comparison the Russell 1000 Value Index returned 16.49%, while the broad market, as measured by the Standard & Poor's 500 (S&P 500), gained 10.88%.

We attribute the variance between our return and that of the Russell 1000 Value Index to the portfolio's high-quality stocks, which typically fall under the larger market capitalizations within the index. These were precisely the stocks that underperformed within the Russell 1000 Value Index, while stocks with smaller market caps and lower-quality ratings rallied. However, our strategy, we believe, provides an opportunity to add value over the long term.

The portfolio benefited from its underweight position and stock selection in consumer discretionary stocks, which helped relative performance as investors moved away from these typically economically-sensitive stocks. An overweight position in materials also helped as this sector posted relatively strong returns.

An overweight in information technology hurt performance as some investors sold on the belief that the solid economy and capital expenditure trends might reverse in the near term. An overweight position in health care — primarily pharmaceutical stocks — also hurt performance as these stocks struggled when some major drugs were recalled due to health concerns.

We're pleased with the portfolio, which comprises solid companies with projected earnings growth that is faster than that of the market, valuations that are lower than the market's and current dividend income that is materially higher.

Thomas F. Sassi  
Lead Manager

Steve Scudato  
Manager

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

## Risk Considerations

The portfolio is subject to stock market risk. It focuses its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The 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 reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## Scudder Large Cap Value Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	99%	94%
Cash Equivalents	1%	6%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	31%	32%
Information Technology	15%	12%
Health Care	11%	14%
Industrials	11%	12%
Consumer Discretionary	9%	6%
Energy	7%	8%
Consumer Staples	7%	5%
Materials	7%	8%
Telecommunication Services	1%	2%
Utilities	1%	1%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 89. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Large Cap Value Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 98.6%</b>			JPMorgan Chase & Co.	264,700	10,325,947
<b>Consumer Discretionary 9.1%</b>					<b>27,996,587</b>
<b>Hotels Restaurants &amp; Leisure 1.1%</b>			<b>Insurance 1.9%</b>		
McDonald's Corp.	108,400	3,475,304	Allstate Corp.	31,100	1,608,492
<b>Multiline Retail 3.1%</b>			American International Group, Inc.	68,800	4,518,096
Family Dollar Stores, Inc.	178,300	5,568,309			<b>6,126,588</b>
The May Department Stores Co. (c)	142,200	4,180,680	<b>Health Care 11.3%</b>		
		<b>9,748,989</b>	<b>Health Care Equipment &amp; Supplies 2.7%</b>		
<b>Specialty Retail 4.9%</b>			Baxter International, Inc.	219,500	7,581,530
Limited Brands	182,100	4,191,942	Waters Corp.*	16,600	776,714
Lowe's Companies, Inc.	116,700	6,720,753			<b>8,358,244</b>
Sherwin-Williams Co.	99,000	4,418,370	<b>Pharmaceuticals 8.6%</b>		
		<b>15,331,065</b>	Abbott Laboratories	121,100	5,649,315
<b>Consumer Staples 6.8%</b>			Bristol-Myers Squibb Co.	289,900	7,427,238
<b>Food Products 5.1%</b>			Johnson & Johnson	71,700	4,547,214
ConAgra Foods, Inc.	140,500	4,137,725	Pfizer, Inc.	161,900	4,353,491
General Mills, Inc.	135,000	6,710,850	Wyeth	119,000	5,068,210
Sara Lee Corp.	214,200	5,170,788			<b>27,045,468</b>
		<b>16,019,363</b>	<b>Industrials 10.8%</b>		
<b>Household Products 1.7%</b>			<b>Aerospace &amp; Defense 2.4%</b>		
Kimberly-Clark Corp.	80,000	5,264,800	Honeywell International, Inc.	215,700	7,637,937
<b>Energy 7.3%</b>			<b>Commercial Services &amp; Supplies 2.0%</b>		
<b>Oil &amp; Gas</b>			Avery Dennison Corp.	75,500	4,527,735
BP PLC (ADR)	61,344	3,582,489	Pitney Bowes, Inc.	35,400	1,638,312
ChevronTexaco Corp.	55,100	2,893,301			<b>6,166,047</b>
ConocoPhillips	25,000	2,170,750	<b>Electrical Equipment 1.1%</b>		
ExxonMobil Corp.	184,000	9,431,840	Emerson Electric Co.	48,200	3,378,820
Royal Dutch Petroleum Co. (NY Shares)	86,000	4,934,680	<b>Industrial Conglomerates 5.3%</b>		
		<b>23,013,060</b>	General Electric Co.	296,500	10,822,250
<b>Financials 30.1%</b>			Textron, Inc.	81,600	6,022,080
<b>Banks 15.1%</b>					<b>16,844,330</b>
AmSouth Bancorp.	179,300	4,643,870	<b>Information Technology 14.8%</b>		
Bank of America Corp.	229,226	10,771,330	<b>Communications Equipment 1.8%</b>		
BB&T Corp.	74,600	3,136,930	Nokia Oyj (ADR)	360,500	5,649,035
National City Corp.	133,500	5,012,925	<b>Computers &amp; Peripherals 3.6%</b>		
PNC Financial Services Group	144,200	8,282,848	Hewlett-Packard Co.	253,797	5,322,123
SunTrust Banks, Inc. (c)	51,400	3,797,432	International Business Machines Corp.	60,800	5,993,664
US Bancorp.	177,600	5,562,432			<b>11,315,787</b>
Wachovia Corp.	118,500	6,233,100	<b>IT Consulting &amp; Services 2.3%</b>		
		<b>47,440,867</b>	Automatic Data Processing, Inc.	165,700	7,348,795
<b>Capital Markets 4.2%</b>			<b>Semiconductors &amp; Semiconductor Equipment 5.5%</b>		
Bear Stearns Companies, Inc.	42,400	4,337,944	Applied Materials, Inc.*	271,000	4,634,100
Merrill Lynch & Co., Inc.	96,700	5,779,759	Intel Corp. (c)	332,800	7,784,192
Morgan Stanley	55,000	3,053,600	Texas Instruments, Inc.	200,400	4,933,848
		<b>13,171,303</b>			<b>17,352,140</b>
<b>Diversified Financial Services 8.9%</b>			<b>Software 1.6%</b>		
Citigroup, Inc.	234,700	11,307,846	Microsoft Corp.	188,900	5,045,519
Fannie Mae	43,400	3,090,514			
Freddie Mac	44,400	3,272,280			

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



	Shares	Value (\$)
<b>Materials 6.7%</b>		
<b>Chemicals 2.7%</b>		
Air Products & Chemicals, Inc.	107,400	6,225,978
Dow Chemical Co.	45,100	2,232,901
		<b>8,458,879</b>
<b>Containers &amp; Packaging 2.4%</b>		
Sonoco Products Co.	249,200	7,388,780
<b>Metals &amp; Mining 1.6%</b>		
Alcoa, Inc.	162,800	5,115,176
<b>Telecommunication Services 0.9%</b>		
<b>Diversified Telecommunication Services</b>		
SBC Communications, Inc.	114,000	2,937,780
<b>Utilities 0.8%</b>		
<b>Electric Utilities</b>		
Progress Energy, Inc.	53,300	2,411,292
<b>Total Common Stocks (Cost \$259,732,207)</b>		<b>310,041,955</b>

	Shares	Value (\$)
<b>Securities Lending Collateral 2.9%</b>		
Daily Assets Fund Institutional, 2.25% (d) (e) (Cost \$9,143,450)	9,143,450	9,143,450
<b>Cash Equivalents 1.1%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$3,407,148)	3,407,148	3,407,148
	<b>% of Net Assets</b>	<b>Value (\$)</b>
<b>Total Investment Portfolio</b> (Cost \$272,282,805) (a)	102.6	322,592,553
<b>Other Assets and Liabilities, Net</b>	(2.6)	<b>(8,269,795)</b>
<b>Net Assets</b>	100.0	<b>314,322,758</b>

#### Notes to Scudder Large Cap Value Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$274,462,734. At December 31, 2004, net realized appreciation for all securities based on tax cost was \$48,129,819. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$53,855,821 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$5,726,002.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$8,940,036, which is 2.8% of net assets.
- (d) Daily Assets Fund Institutional, an affiliated fund, is also managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (e) Represents collateral held in connection with securities lending.

ADR: American Depositary Receipts

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$259,732,207) — including \$8,940,036 of securities loaned	\$ 310,041,955
Investment in Daily Assets Fund Institutional (cost \$9,143,450)*	9,143,450
Investment in Scudder Cash Management QP Trust (cost \$3,407,148)	3,407,148
Total investments in securities, at value (cost \$272,282,805)	322,592,553
Cash	121,117
Receivable for investments sold	1,165,433
Dividends receivable	724,356
Interest receivable	14,821
Receivable for Portfolio shares sold	66,955
Other assets	8,824
<b>Total assets</b>	<b>324,694,059</b>

### Liabilities

Payable for investments purchased	741,948
Payable upon return of securities loaned	9,143,450
Payable for Portfolio shares redeemed	197,898
Accrued management fee	207,442
Other accrued expenses and payables	80,563
Total liabilities	10,371,301
<b>Net assets, at value</b>	<b>\$ 314,322,758</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	\$ 5,206,284
Net unrealized appreciation (depreciation) on investments	50,309,748
Accumulated net realized gain (loss)	(26,565,978)
Paid-in capital	285,372,704
<b>Net assets, at value</b>	<b>\$ 314,322,758</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$273,951,365 ÷ 17,350,180 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 15.79</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$40,371,393 ÷ 2,560,016 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 15.77</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$27,291)	\$ 7,627,184
Interest — Scudder Cash Management QP Trust	170,328
Securities lending income, including income from Daily Assets Fund Institutional	10,990
<b>Total Income</b>	<b>7,808,502</b>
Expenses:	
Management fee	2,219,930
Custodian fees	20,665
Distribution service fees (Class B)	81,071
Record keeping fees (Class B)	40,979
Auditing	53,447
Legal	18,839
Reports to shareholders	45,575
Other	7,225
Total expenses, before expense reductions	2,487,731
Expense reductions	(3,034)
Total expenses, after expense reductions	2,484,697
<b>Net investment income (loss)</b>	<b>5,323,805</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	13,617,082
Net unrealized appreciation (depreciation) during the period on investments	9,876,005
<b>Net gain (loss) on investment transactions</b>	<b>23,493,087</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 28,816,892</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 5,323,805	\$ 4,449,706
Net realized gain (loss) on investment transactions	13,617,082	(2,062,532)
Net unrealized appreciation (depreciation) on investment transactions during the period	9,876,005	64,744,276
Net increase (decrease) in net assets resulting from operations	28,816,892	67,131,450
Distributions to shareholders from:		
Net investment income		
Class A	(4,099,698)	(4,338,949)
Class B	(305,336)	(34,467)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	26,091,725	21,484,093
Reinvestment of distributions	4,099,698	4,338,949
Cost of shares redeemed	(40,278,155)	(38,394,030)
Net increase (decrease) in net assets from Class A share transactions	(10,086,732)	(12,570,988)
<b>Class B</b>		
Proceeds from shares sold	22,917,145	15,038,872
Reinvestment of distributions	305,336	34,467
Cost of shares redeemed	(3,736,209)	(130,010)
Net increase (decrease) in net assets from Class B share transactions	19,486,272	14,943,329
<b>Increase (decrease) in net assets</b>	<b>33,811,398</b>	<b>65,130,375</b>
Net assets at beginning of period	280,511,360	215,380,985
Net assets at end of period (including undistributed net investment income of \$5,206,284 and \$4,287,513, respectively)	<b>\$ 314,322,758</b>	<b>\$ 280,511,360</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	18,033,776	19,122,645
Shares sold	1,766,310	1,748,402
Shares issued to shareholders in reinvestment of distributions	282,738	417,608
Shares redeemed	(2,732,644)	(3,254,879)
Net increase (decrease) in Portfolio shares	(683,596)	(1,088,869)
Shares outstanding at end of period	<b>17,350,180</b>	<b>18,033,776</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,221,656	44,927
Shares sold	1,563,652	1,182,972
Shares issued to shareholders in reinvestment of distributions	21,029	3,314
Shares redeemed	(246,321)	(9,557)
Net increase (decrease) in Portfolio shares	1,338,360	1,176,729
Shares outstanding at end of period	<b>2,560,016</b>	<b>1,221,656</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 14.57</b>	<b>\$ 11.24</b>	<b>\$ 13.40</b>	<b>\$ 13.40</b>	<b>\$ 14.70</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.27	.24	.23	.23	.30
Net realized and unrealized gain (loss) on investment transactions	1.18	3.33	(2.20)	.01	1.40
<b>Total from investment operations</b>	<b>1.45</b>	<b>3.57</b>	<b>(1.97)</b>	<b>.24</b>	<b>1.70</b>
<i>Less distributions from:</i>					
Net investment income	(.23)	(.24)	(.19)	(.24)	(.40)
Net realized gains on investment transactions	—	—	—	—	(2.60)
<b>Total distributions</b>	<b>(.23)</b>	<b>(.24)</b>	<b>(.19)</b>	<b>(.24)</b>	<b>(3.00)</b>
<b>Net asset value, end of period</b>	<b>\$ 15.79</b>	<b>\$ 14.57</b>	<b>\$ 11.24</b>	<b>\$ 13.40</b>	<b>\$ 13.40</b>
Total Return (%)	10.07	32.60	(14.98)	1.87	16.13
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	274	263	215	257	219
Ratio of expenses (%)	.80	.80	.79	.79	.80
Ratio of net investment income (loss) (%)	1.84	1.94	1.84	1.75	2.55
Portfolio turnover rate (%)	40	58	84	72	56

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period 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

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
<b>Net asset value, beginning of period</b>	<b>\$ 14.55</b>	<b>\$ 11.23</b>	<b>\$ 12.77</b>
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.22	.18	.15
Net realized and unrealized gain (loss) on investment transactions	1.17	3.35	(1.69)
<b>Total from investment operations</b>	<b>1.39</b>	<b>3.53</b>	<b>(1.54)</b>
<i>Less distributions from:</i>			
Net investment income	(.17)	(.21)	—
<b>Net asset value, end of period</b>	<b>\$ 15.77</b>	<b>\$ 14.55</b>	<b>\$ 11.23</b>
Total Return (%)	9.65	32.19	(12.06)**
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	40	18	.5
Ratio of expenses (%)	1.18	1.19	1.04*
Ratio of net investment income (loss) (%)	1.46	1.55	2.74*
Portfolio turnover rate (%)	40	58	84**

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

## Scudder Money Market Portfolio

Performance is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Current performance may be higher or lower than the performance quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns. The yield quotation more closely reflects the current earnings of the Portfolio than the total return quotation.

### Portfolio's Class A Shares Yield

	7-day current yield	7-day compounded effective yield
December 31, 2004	1.62%	1.63%
December 31, 2003	.76%	.77%

### Portfolio's Class B Shares Yield

	7-day current yield	7-day compounded effective yield
December 31, 2004	1.24%	1.25%
December 31, 2003	.35%	.35%

*Yields are historical, will fluctuate and do not guarantee future performance. The 7-day current yield refers to the income paid by the portfolio over a 7-day period expressed as an annual percentage rate of the fund's shares outstanding. The 7-day compounded effective yield is the annualized yield based on the most recent 7 days of interest earnings with all income reinvested.*

# Information About Your Portfolio's Expenses

## Scudder Money Market Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these table is meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,005.70	\$ 1,003.80
Expenses Paid per \$1,000*	\$ 2.85	\$ 4.73
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,022.37	\$ 1,020.48
Expenses Paid per \$1,000*	\$ 2.87	\$ 4.77

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — Scudder Money Market Portfolio	.56%	.94%

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

## Scudder Money Market Portfolio

As economic recovery gained some momentum during the first quarter of 2004, the market turned its attention to the persistent lack of job creation, and the one-year LIBOR declined from 1.60% at the start of the year to 1.35% by the end of March. In early April, however, fixed income markets experienced a dramatic turnaround as the government reported that the economy had created more than 300,000 new jobs. In reaction, the Fed enacted its “measured pace” policy of gradually raising short-term interest rates at its five Federal Open Market Committee meetings from June through December 2004. In the second half of the year, the economy showed resiliency in the face of sharply rising oil prices, proving to many that the recovery had gained a firm foothold. In light of this renewed confidence — and continued job growth — at the close of the year LIBOR rose to 3.10%, its highest level since March 2002.

During the 12-month period ended December 31, 2004, the portfolio provided a total return of 0.91% (Class A shares, unadjusted for contract charges) compared with the 0.85% average return for funds in the Lipper Variable Money Market Funds category for the same period, according to Lipper Inc. Please see the following page for standardized performance as of December 31, 2004.

In the second quarter, one-year money market rates rose sharply in response to concerns that the Fed would raise short-term interest rates aggressively over the next 12 to 24 months. Our strategy was to substantially decrease the portfolio’s average maturity to reduce risk, limiting our purchases to three-month maturity issues and shorter. During this period, we also increased the fund’s allocation in floating-rate securities. Our decision to increase our allocation in this sector helped performance during the period. Going forward, we will continue our insistence on the highest credit quality within the portfolio and maintain our conservative investment strategies and standards.

A group of investment professionals is responsible for the day-to-day management of the portfolio. These investment professionals have a broad range of experience managing money market funds.

Deutsche Investment Management Americas Inc.

**Performance is historical, assumes reinvestment of all dividends, and does not guarantee future results. Current performance may be higher or lower than the performance quoted. Please visit [scudder.com](http://scudder.com) for the product’s most recent month-end performance. Performance doesn’t reflect charges and fees (“contract charges”) associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns. The yield quotation more closely reflects the current earnings of the fund than the total return quotation.**

### Risk Considerations

**An investment in this portfolio is not insured or guaranteed by the Federal Deposit Insurance Corporation or by any other government agency. Although the 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. Please read this portfolio’s prospectus for specific details regarding its investment and risk profile.**

*LIBOR, the London Interbank Offered Rate, is the most widely used benchmark or reference rate for short-term interest rates. LIBOR is the rate of interest at which banks borrow funds from other banks, in large volume, in the international market.*

*The Lipper Variable Money Market Funds category includes funds that invest in high-quality financial instruments rated in the top two grades with dollar-weighted average maturities of less than 90 days and that intend to keep a constant net asset value. It is not possible to invest directly in a Lipper category.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## Scudder Money Market Portfolio

Asset Allocation	12/31/04	12/31/03
Commercial Paper	41%	29%
Floating Rate Notes	20%	37%
Certificates of Deposit and Bank Notes	12%	13%
US Government Sponsored Agencies <sup>†</sup>	11%	14%
Repurchase Agreements	8%	5%
Funding Agreement	3%	—
Promissory Notes	3%	—
Short-Term Notes	2%	1%
Asset Backed	—	1%
	100%	100%

<sup>†</sup> Not backed by the full faith and credit of the US Government

### Weighted Average Maturity\*

Scudder Variable Series II — Money Market Portfolio	30 days	59 days
First Tier Money Fund Average	36 days	52 days

\* The Funds are compared to their respective iMoneyNet category: Category includes only non-government retail funds that are not holding any second tier securities. Portfolio Holdings of First Tier funds include U.S. Treasury, U.S. Other, Repos, Time Deposits, Domestic Bank Obligations, Foreign Bank Obligations, First Tier CP, Floating Rate Notes and Asset backed Commercial Paper.

Asset allocation is subject to change.

For more complete details about the Portfolios' holdings, see page 98. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.



## Scudder Money Market Portfolio

	Principal Amount (\$)	Value (\$)
<b>Certificates of Deposit and Bank Notes 12.2%</b>		
HBOS Treasury Services PLC, 2.06%, 1/26/2005	10,000,000	10,000,000
Nordea Bank Finland PLC, 2.36%, 2/2/2005	9,000,000	9,000,080
Societe Generale: 1.185%, 1/4/2005	5,000,000	5,000,000
2.32%, 2/2/2005	6,000,000	6,000,000
Toronto Dominion Bank, 2.505%, 5/27/2005	6,000,000	6,000,120
<b>Total Certificates of Deposit and Bank Notes</b> (Cost \$36,000,200)		<b>36,000,200</b>
<b>Commercial Paper 40.8%</b>		
British Transco Capital, Inc., 2.31%** , 2/1/2005	3,000,000	2,994,032
Cancara Asset Securitization LLC: 2.04%** , 1/20/2005	5,000,000	4,994,617
2.37%** , 1/24/2005	6,000,000	5,990,915
CC (USA), Inc.: 2.0%** , 1/7/2005	7,000,000	6,997,667
2.05%** , 1/25/2005	9,000,000	8,987,700
Charta LLC, 2.34%** , 1/24/2005	12,000,000	11,982,060
CIT Group, Inc.: 2.0%** , 1/4/2005	2,000,000	1,999,667
2.32%** , 1/31/2005	3,000,000	2,994,200
2.37%** , 4/4/2005	3,000,000	2,981,710
Dorada Finance, Inc.: 2.01%** , 1/10/2005	7,000,000	6,996,483
2.39%** , 3/8/2005	4,000,000	3,982,473
General Electric Capital Corp., 1.88%** , 2/1/2005	4,000,000	3,993,524
Giro Funding US Corp.: 2.02%** , 1/14/2005	2,000,000	1,998,541
2.37%** , 1/28/2005	3,000,000	2,994,668
Greyhawk Funding LLC, 2.04%** , 1/19/2005	8,000,000	7,991,840
K2 (USA) LLC: 1.87%** , 2/18/2005	4,000,000	3,990,027
1.9%** , 2/18/2005	6,000,000	5,984,800
2.06%** , 1/24/2005	5,000,000	4,993,419
Lake Constance Funding LLC, 2.04%** , 1/21/2005	5,000,000	4,994,333
Perry Global Funding LLC, Series A, 2.06%** , 1/24/2005	7,000,000	6,990,787
Prudential PLC, 2.02%** , 1/7/2005	9,000,000	8,996,970
Swedish National Housing Finance Corp., 2.28%** , 1/31/2005	6,000,000	5,988,600
<b>Total Commercial Paper</b> (Cost \$119,819,033)		<b>119,819,033</b>

	Principal Amount (\$)	Value (\$)
<b>Floating Rate Notes* 19.7%</b>		
Credit Suisse First Boston, 2.46%, 9/9/2005	7,000,000	7,001,127
Depfa Bank PLC, 1.86%, 9/15/2005	4,000,000	4,000,000
HSBC Finance Corp., 2.41%, 8/18/2005	12,000,000	12,009,977
International Business Machines Corp., 2.07%, 12/8/2005	3,000,000	2,999,355
Merrill Lynch & Co., Inc., 2.708%, 1/14/2005	18,000,000	18,002,186
Morgan Stanley: 2.33%, 2/18/2005	10,000,000	10,000,000
2.35%, 4/19/2005	4,000,000	4,000,000
<b>Total Floating Rate Notes</b> (Cost \$58,012,645)		<b>58,012,645</b>

	Principal Amount (\$)	Value (\$)
<b>Short-Term Notes 2.4%</b>		
American General Finance Corp., 7.45%, 1/15/2005 (Cost \$7,016,460)	7,000,000	7,016,460

	Principal Amount (\$)	Value (\$)
<b>US Government Sponsored Agencies<sup>†</sup> 11.1%</b>		
Federal Home Loan Bank, 1.5%, 3/8/2005	5,000,000	5,000,000
Federal Home Loan Mortgage Corp.: 1.5%, 2/14/2005	5,000,000	5,000,000
2.0%*, 10/7/2005	10,000,000	10,000,000
2.165%*, 11/7/2005	5,000,000	5,000,000
Federal National Mortgage Association: 1.75%, 5/23/2005	3,500,000	3,500,000
1.835%** , 2/16/2005	4,000,000	3,990,621
<b>Total US Government Sponsored Agencies</b> (Cost \$32,490,621)		<b>32,490,621</b>

	Principal Amount (\$)	Value (\$)
<b>Promissory Notes 3.4%</b>		
Goldman Sachs Group, Inc., 2.463%*, 5/26/2005 (Cost \$10,000,000)	10,000,000	10,000,000

	Principal Amount (\$)	Value (\$)
<b>Funding Agreement 2.4%</b>		
New York Life Insurance Co., Series A, 2.0%*, 9/20/2005 (Cost \$7,000,000)	7,000,000	7,000,000

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

	Principal Amount (\$)	Value (\$)		% of Net Assets	Value (\$)
<b>Repurchase Agreements 7.9%</b>			<b>Total Investment Portfolio</b>		
Citigroup Global Markets, Inc., 2.3%, dated 12/31/2004, to be repurchased at \$23,004,408 on 1/3/2005 (b)	23,000,000	23,000,000	(Cost \$293,631,959) (a)	99.9	293,631,959
State Street Bank and Trust Co., 1.9%, dated 12/31/2004, to be repurchased at \$293,046 on 1/3/2005 (c)	293,000	293,000	<b>Other Assets and Liabilities, Net</b>	0.1	354,525
<b>Total Repurchase Agreements (Cost \$23,293,000)</b>		<b>23,293,000</b>	<b>Net Assets</b>	100.0	<b>293,986,484</b>

#### 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, 2004.

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

† Not backed by the full faith and credit of the US Government.

(a) Cost for federal income tax purposes was \$293,631,959.

(b) Collateralized by:

Principal Amount (\$)	Security	Rate (%)	Maturity Date	Collateral Value (\$)
20,945,000	Fannie Mae	6.25	2/1/2011	23,473,725
450,000	Federal Home Loan Bank	2.55	2/28/2007	446,748
				<b>23,920,473</b>

(c) Collateralized by a \$305,000 Federal National Mortgage Association, 4.50% maturing on 6/1/2018 with a value of \$301,950.

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at amortized cost (cost \$270,338,959)	\$ 270,338,959
Repurchase agreements, at amortized cost (cost \$23,293,000)	23,293,000
Total investments in securities, at amortized cost (cost \$293,631,959)	293,631,959
Cash	136
Receivable for Portfolio shares sold	280,498
Interest receivable	588,785
Other assets	28,655
<b>Total assets</b>	<b>294,530,033</b>

### Liabilities

Payable for Portfolio shares redeemed	118,232
Dividends payable	197,762
Accrued management fee	115,328
Other accrued expenses and payables	112,227
Total liabilities	543,549
<b>Net assets, at value</b>	<b>\$ 293,986,484</b>

### Net Assets

Net assets consist of:	
Accumulated distributions in excess of net investment income	(42,078)
Paid-in capital	294,028,562
<b>Net assets, at value</b>	<b>\$ 293,986,484</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share ( $\$241,274,286 \div 241,307,750$ 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 ( $\$52,712,198 \div 52,717,331$ outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 1.00</b>
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## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Interest	\$ 5,271,765
Expenses:	
Management fee	1,840,343
Custodian fees	26,325
Distribution service fees (Class B)	157,184
Record keeping fees (Class B)	82,393
Auditing	34,485
Legal	22,588
Trustees' fee and expenses	6,352
Reports to shareholders	54,350
Other	13,136
Total expenses, before expense reductions	2,237,156
Expense reductions	(4,380)
Total expenses, after expense reductions	2,232,776
<b>Net investment income</b>	<b>3,038,989</b>
<b>Net realized gain (loss) from investments</b>	<b>3,830</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 3,042,819</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,	
	2004	2003
Operations:		
Net investment income	\$ 3,038,989	\$ 3,494,967
Net realized gain (loss) on investment transactions	3,830	41
Net increase (decrease) in net assets resulting from operations	3,042,819	3,495,008
Distributions to shareholders from:		
Net investment income		
Class A	(2,746,531)	(3,404,574)
Class B	(313,926)	(96,426)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	220,350,001	312,219,158
Reinvestment of distributions	2,679,083	3,301,598
Cost of shares redeemed	(308,224,544)	(559,028,884)
Net increase (decrease) in net assets from Class A share transactions	(85,195,460)	(243,508,128)
<b>Class B</b>		
Proceeds from shares sold	69,563,948	92,463,564
Reinvestment of distributions	295,489	87,495
Cost of shares redeemed	(83,569,264)	(28,805,563)
Net increase (decrease) in net assets from Class B share transactions	(13,709,827)	63,745,496
<b>Increase (decrease) in net assets</b>	<b>(98,922,925)</b>	<b>(179,768,624)</b>
Net assets at beginning of period	392,909,409	572,678,033
Net assets at end of period (including accumulated distributions in excess of net investment income of \$42,078 and \$24,440, respectively)	<b>\$ 293,986,484</b>	<b>\$ 392,909,409</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	326,503,210	570,017,689
Shares sold	220,350,001	312,219,158
Shares issued to shareholders in reinvestment of distributions	2,679,083	3,301,598
Shares redeemed	(308,224,544)	(559,035,235)
Net increase (decrease) in Portfolio shares	(85,195,460)	(243,514,479)
Shares outstanding at end of period	<b>241,307,750</b>	<b>326,503,210</b>
<b>Class B</b>		
Shares outstanding at beginning of period	66,427,158	2,681,662
Shares sold	69,563,948	92,463,564
Shares issued to shareholders in reinvestment of distributions	295,489	87,495
Shares redeemed	(83,569,264)	(28,805,563)
Net increase (decrease) in Portfolio shares	(13,709,827)	63,745,496
Shares outstanding at end of period	<b>52,717,331</b>	<b>66,427,158</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000
<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	.009	.007	.013	.037	.059
<b>Total from investment operations</b>	<b>.009</b>	<b>.007</b>	<b>.013</b>	<b>.037</b>	<b>.059</b>
<i>Less distributions from:</i>					
Net investment income	(.009)	(.007)	(.013)	(.037)	(.059)
<b>Net asset value, end of period</b>	<b>\$ 1.000</b>	<b>\$ 1.000</b>	<b>\$ 1.000</b>	<b>\$ 1.000</b>	<b>\$ 1.000</b>
Total Return (%)	.91	.72	1.35	3.75	6.10
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	241	326	570	671	279
Ratio of expenses (%)	.53	.54	.54	.55	.58
Ratio of net investment income (%)	.88	.73	1.35	3.39	5.94

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 1.000	\$ 1.000	\$ 1.000
<i>Income from investment operations:</i>			
Net investment income	.005	.004	.007
<b>Total from investment operations</b>	<b>.005</b>	<b>.004</b>	<b>.007</b>
<i>Less distributions from:</i>			
Net investment income	(.005)	(.004)	(.007)
<b>Net asset value, end of period</b>	<b>\$ 1.000</b>	<b>\$ 1.000</b>	<b>\$ 1.000</b>
Total Return (%)	.52	.42	.67 <sup>**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	53	66	3
Ratio of expenses before expense reductions (%)	.91	.93	.79 <sup>*</sup>
Ratio of expenses after expense reductions (%)	.91	.92	.64 <sup>*</sup>
Ratio of net investment income (%)	.50	.35	1.11 <sup>*</sup>

<sup>a</sup> For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>\*</sup> Annualized

<sup>\*\*</sup> Not annualized

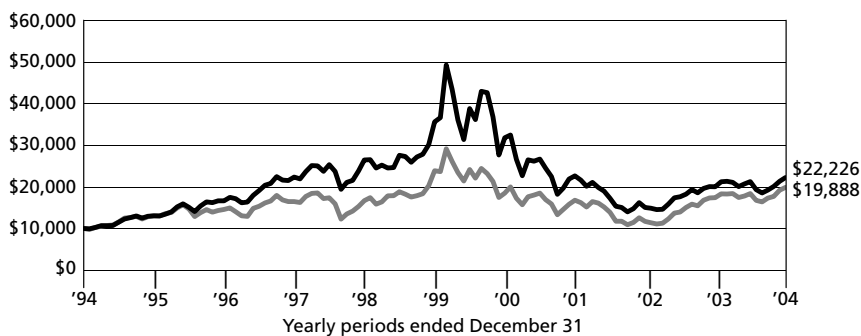
## Scudder Small Cap Growth Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, stocks of small companies involve greater risk than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be subject to more erratic and abrupt market movements. Finally, derivatives may be more volatile and less liquid than traditional securities and the Portfolio could suffer losses on its derivatives positions. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in Scudder Small Cap Growth Portfolio from 12/31/1994 to 12/31/2004

- Scudder Small Cap Growth Portfolio — Class A
- Russell 2000 Growth 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 higher price-to-book ratio and higher forecasted growth values. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder Small Cap Growth Portfolio		1-Year	3-Year	5-Year	10-Year
Class A	Growth of \$10,000	\$11,102	\$9,821	\$6,243	\$22,226
	Average annual total return	11.02%	-.60%	-8.99%	8.31%
Russell 2000 Growth Index	Growth of \$10,000	\$11,431	\$11,841	\$8,338	\$19,888
	Average annual total return	14.31%	5.79%	-3.57%	7.12%
Scudder Small Cap Growth Portfolio		1-Year	Life of Class*		
Class B	Growth of \$10,000	\$11,054	\$13,291		
	Average annual total return	10.54%	12.04%		
Russell 2000 Growth Index	Growth of \$10,000	\$11,431	\$14,326		
	Average annual total return	14.31%	15.47%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## Scudder Small Cap Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

<b>Actual Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,046.60	\$ 1,044.40
Expenses Paid per \$1,000*	\$ 3.73	\$ 5.66
<b>Hypothetical 5% Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,021.56	\$ 1,019.67
Expenses Paid per \$1,000*	\$ 3.69	\$ 5.59

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

<b>Annualized Expense Ratios</b>	<b>Class A</b>	<b>Class B</b>
Scudder Variable Series II — Scudder Small Cap Growth Portfolio	.72%	1.10%

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

## Scudder Small Cap Growth Portfolio

During 2004, the small-cap equity market outperformed the large-cap segment for the second consecutive year. However, the small, low-quality and high-beta companies that dominated market returns in 2003 continued their reversal as the larger-cap, higher-quality, and dividend-paying securities increasingly drew the attention of investors. In this environment, the portfolio produced an 11.02% total return (Class A shares, unadjusted for contract charges) over the 12-month period ended December 31, 2004, though it underperformed the 14.31% return of the Russell 2000 Growth Index. During the period, the market was able to weather a mixed-bag of labor reports, the insurgency in Iraq, a midyear spike in oil prices and the hotly contested presidential election.

Stock selection contributed to performance over the 12-month period. Holdings within information technology and financials were the largest contributors. Stock selection within the consumer discretionary sector detracted from performance during the period. In terms of sector allocation, the portfolio's overweight in information technology was the biggest driver of positive performance over the period, while an overweight in consumer discretionary was a significant detractor. However, our current view is that industry profit growth in technology is likely to slow, and we have decreased our overall weighting in technology based on this belief.

With underlying economic and market factors supportive of the equity markets, investors should continue to focus on those more profitable small-cap companies that report superior earnings. This should bode well for this segment of the stock market, despite rising interest rates, high energy costs and the weakening dollar. Based on this belief, we have increased or maintained our weighting across most sectors, with the exception of technology.

Samuel A. Dedio

Robert S. Janis

Co-Managers

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, stocks of small companies involve greater risk than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be subject to more erratic and abrupt market movements. Finally, derivatives may be more volatile and less liquid than traditional securities and the portfolio could suffer losses on its derivatives positions. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 2000 Growth Index is an unmanaged index (with no defined investment objective) of those securities in the Russell 2000 Index with a higher price-to-book ratio and higher forecasted growth values. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*



# Portfolio Summary

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## Scudder Small Cap Growth Portfolio

<b>Asset Allocation</b> (Excludes Security Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	97%	97%
Cash Equivalents	3%	3%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Security Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Information Technology	29%	37%
Health Care	24%	18%
Consumer Discretionary	22%	16%
Industrials	8%	9%
Financials	8%	9%
Consumer Staples	5%	5%
Energy	3%	4%
Materials	1%	2%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 107. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Small Cap Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 98.0%</b>					
<b>Consumer Discretionary 21.2%</b>					
<b>Hotels Restaurants &amp; Leisure 8.9%</b>					
Buffalo Wild Wings, Inc.*	80,900	2,816,129			
LIFE TIME FITNESS, Inc.*	121,400	3,141,832			
P.F. Chang's China Bistro, Inc.*	89,500	5,043,325			
RARE Hospitality International, Inc.*	168,500	5,368,410			
Shuffle Master, Inc.* (d)	103,400	4,870,140			
		<b>21,239,836</b>			
<b>Internet &amp; Catalog Retail 1.2%</b>					
Sharper Image Corp.*	143,700	2,708,745			
<b>Media 2.2%</b>					
Journal Register Co.*	143,800	2,779,654			
Lions Gate Entertainment Corp.* (d)	225,400	2,393,748			
		<b>5,173,402</b>			
<b>Specialty Retail 6.6%</b>					
Aeropostale, Inc.*	178,900	5,265,027			
Hot Topic, Inc.* (d)	267,700	4,601,763			
Kenneth Cole Productions, Inc. "A" (d)	128,500	3,965,510			
New York & Co., Inc.*	117,900	1,947,708			
		<b>15,780,008</b>			
<b>Textiles, Apparel &amp; Luxury Goods 2.3%</b>					
Gildan Activewear, Inc. "A"	90,900	3,089,691			
The Warnaco Group, Inc.*	114,300	2,468,880			
		<b>5,558,571</b>			
<b>Consumer Staples 4.7%</b>					
<b>Food &amp; Staples Retailing 2.4%</b>					
United Natural Foods, Inc.*	185,200	5,759,720			
<b>Household Products 2.3%</b>					
Jarden Corp.*	123,300	5,356,152			
<b>Energy 2.8%</b>					
<b>Oil &amp; Gas</b>					
Bill Barrett Corp.*	76,300	2,440,837			
Southwestern Energy Co.*	85,100	4,313,719			
		<b>6,754,556</b>			
<b>Financials 7.8%</b>					
<b>Capital Markets 3.7%</b>					
Jefferies Group, Inc.	88,300	3,556,724			
Piper Jaffray Companies, Inc.*	111,400	5,341,630			
		<b>8,898,354</b>			
<b>Diversified Financial Services 2.7%</b>					
Affiliated Managers Group, Inc.* (d)	95,050	6,438,687			
<b>Insurance 1.4%</b>					
KMG America Corp.*	289,400	3,183,400			
<b>Health Care 23.7%</b>					
<b>Health Care Equipment &amp; Supplies 6.5%</b>					
Advanced Medical Optics, Inc.* (d)	115,600	4,755,784			
American Medical Systems Holdings, Inc.*	62,700	2,621,487			
ArthroCare Corp.* (d)	113,800	3,648,428			
Wright Medical Group, Inc.*	152,300	4,340,550			
		<b>15,366,249</b>			
<b>Health Care Providers &amp; Services 14.0%</b>					
American Healthways, Inc.* (d)	123,100	4,067,224			
AMERIGROUP Corp.*	93,300	7,059,078			
Beverly Enterprises, Inc.*	577,000	5,279,550			
Centene Corp.*	305,800	8,669,430			
United Surgical Partners International, Inc.*	120,400	5,020,680			
WellCare Health Plans, Inc.*	104,100	3,383,250			
		<b>33,479,212</b>			
<b>Pharmaceuticals 3.2%</b>					
Able Laboratories, Inc.*	108,500	2,468,375			
Connetics Corp.*	212,500	5,161,625			
		<b>7,630,000</b>			
<b>Industrials 8.5%</b>					
<b>Commercial Services &amp; Supplies 1.3%</b>					
CoStar Group, Inc.*	64,250	2,967,065			
<b>Machinery 2.8%</b>					
Joy Global, Inc.	90,000	3,908,700			
Watts Water Technologies, Inc. "A"	83,200	2,682,368			
		<b>6,591,068</b>			
<b>Road &amp; Rail 2.0%</b>					
Heartland Express, Inc.	213,950	4,807,457			
<b>Transportation Infrastructure 2.4%</b>					
Overnite Corp.	156,000	5,809,440			
<b>Information Technology 28.3%</b>					
<b>Communications Equipment 5.8%</b>					
Avocent Corp.*	117,500	4,761,100			
CommScope, Inc.* (d)	186,600	3,526,740			
Foundry Networks, Inc.*	417,200	5,490,352			
		<b>13,778,192</b>			
<b>Internet Software &amp; Services 4.8%</b>					
Audible, Inc.*	124,800	3,251,040			
Openwave Systems, Inc.* (d)	256,800	3,970,128			
WebSense, Inc.*	85,400	4,331,488			
		<b>11,552,656</b>			
<b>IT Consulting &amp; Services 1.4%</b>					
CSG Systems International, Inc.*	175,600	3,283,720			
<b>Semiconductors &amp; Semiconductor Equipment 8.4%</b>					
AMIS Holdings, Inc.*	141,000	2,329,320			
Emulex Corp.*	271,200	4,567,008			
FormFactor, Inc.*	138,100	3,748,034			
Power Integrations, Inc.*	252,500	4,994,450			
Tessera Technologies, Inc.*	116,800	4,346,128			
		<b>19,984,940</b>			
<b>Software 7.9%</b>					
Hyperion Solutions Corp.*	130,300	6,074,586			
Kronos, Inc.*	84,500	4,320,485			
Macromedia, Inc.*	135,800	4,226,096			
THQ, Inc.*	190,000	4,358,600			
		<b>18,979,767</b>			

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

	Shares	Value (\$)
<b>Materials 1.0%</b>		
<b>Metals &amp; Mining</b>		
Foundation Coal Holdings, Inc.* (d)	106,000	2,444,360
<b>Total Common Stocks (Cost \$187,273,102)</b>		<b>233,525,557</b>

<b>Preferred Stocks 0.0%</b>		
Convergent Networks, Inc. "D"* (c)	113,149	6,789
fusionOne "D"* (c)	230,203	14,963
Planetweb, Inc. "E"* (c)	137,868	0
<b>Total Preferred Stocks (Cost \$2,000,004)</b>		<b>21,752</b>

	Shares	Value (\$)
<b>Securities Lending Collateral 14.6%</b>		
Daily Assets Fund Institutional, 2.25% (e) (f) (cost \$34,889,150)	34,889,150	34,889,150
<b>Cash Equivalents 2.6%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$6,200,320)	6,200,320	6,200,320
	<b>% of</b>	<b>Value (\$)</b>
	<b>Net Assets</b>	
<b>Total Investment Portfolio (Cost \$230,362,576) (a)</b>	115.2	<b>274,636,779</b>
<b>Other Assets and Liabilities, Net</b>	(15.2)	<b>(36,230,915)</b>
<b>Net Assets</b>	100.0	<b>238,405,864</b>

### Notes to Scudder Small Cap Growth Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$230,362,576. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$44,274,203. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$48,400,300 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$4,126,097.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) The Fund may purchase securities that are subject to legal or contractual restrictions on resale ("restricted securities"). Restricted securities are securities which have not been registered with the Securities and Exchange Commission under the Securities Act of 1933. The Fund may be unable to sell a restricted security and it may be more difficult to determine a market value for a restricted security. Moreover, if adverse market conditions were to develop during the period between the Fund's decision to sell a restricted security and the point at which the Fund is permitted or able to sell such a security, the Fund might obtain a price less favorable than the price that prevailed when it decided to sell. This investment practice, therefore, could have the effect of increasing the level of illiquidity of the Fund.

### Schedule of Restricted Securities

Securities	Acquisition Dates	Acquisition Cost (\$)	Value (\$)	Value as % of Net Assets
Convergent Networks, Inc. "D"	June 2003	—	6,789	.003
fusionOne "D"	October 2000	1,250,002	14,963	.006
Planetweb, Inc. "E"	September 2000	750,002	—	—
<b>Total Restricted Securities</b>			<b>21,752</b>	<b>.009</b>

- (d) All or a portion of these securities were on loan (see Notes to Financials Statements). The value of all securities loaned at December 31, 2004 amounted to \$33,864,670, which is 14.2% of total net assets.
- (e) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (f) Represents collateral held in connection with securities lending.

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$189,273,106) — including \$33,864,670 of securities loaned	\$ 233,547,309
Investment in Daily Assets Fund Institutional (cost \$34,889,150)*	34,889,150
Investment in Scudder Cash Management QP Trust (cost \$6,200,320)	6,200,320
Total investments in securities, at value (cost \$230,362,576)	274,636,779
Cash	10,000
Receivable for investments sold	109,972
Dividends receivable	4,279
Interest receivable	20,229
Receivable for Portfolio shares sold	29,855
Other assets	12,431
<b>Total assets</b>	<b>274,823,545</b>

### Liabilities

Payable for investments purchased	935,660
Payable upon return of securities loaned	34,889,150
Payable for Portfolio shares redeemed	375,462
Accrued management fee	133,718
Other accrued expenses and payables	83,691
Total liabilities	36,417,681
<b>Net assets, at value</b>	<b>\$ 238,405,864</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	(1,853)
Net unrealized appreciation (depreciation) on investments	44,274,203
Accumulated net realized gain (loss)	(136,503,455)
Paid-in capital	330,636,969
<b>Net assets, at value</b>	<b>\$ 238,405,864</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$210,319,486 ÷ 16,708,714 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.59</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$28,086,378 ÷ 2,250,352 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.48</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends	\$ 296,329
Securities lending income, including income from Daily Assets Fund Institutional	105,683
Interest — Scudder Cash Management QP Trust	144,237
<b>Total Income</b>	<b>546,249</b>
Expenses:	
Management fee	1,466,445
Custodian fees	17,450
Distribution service fees (Class B)	55,527
Record keeping fees (Class B)	28,955
Auditing	59,383
Legal	16,820
Reports to shareholders	44,453
Other	3,178
Total expenses, before expense reductions	1,692,211
Expense reductions	(2,584)
Total expenses, after expense reductions	1,689,627
<b>Net investment income (loss)</b>	<b>(1,143,378)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	9,898,921
Net unrealized appreciation (depreciation) during the period on investments	14,522,914
<b>Net gain (loss) on investment transactions</b>	<b>24,421,835</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 23,278,457</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ (1,143,378)	\$ (782,215)
Net realized gain (loss) on investment transactions	9,898,921	21,248,380
Net unrealized appreciation (depreciation) on investment transactions during the period	14,522,914	31,300,241
Net increase (decrease) in net assets resulting from operations	23,278,457	51,766,406
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	41,819,691	46,393,822
Cost of shares redeemed	(62,320,969)	(40,809,284)
Net increase (decrease) in net assets from Class A share transactions	(20,501,278)	5,584,538
<b>Class B</b>		
Proceeds from shares sold	11,462,792	13,298,753
Cost of shares redeemed	(1,207,862)	(51,363)
Net increase (decrease) in net assets from Class B share transactions	10,254,930	13,247,390
<b>Increase (decrease) in net assets</b>	<b>13,032,109</b>	<b>70,598,334</b>
Net assets at beginning of period	225,373,755	154,775,421
Net assets at end of period (including accumulated net investment loss of \$1,853 and \$14,695, respectively)	\$ <b>238,405,864</b>	\$ <b>225,373,755</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	18,522,593	18,086,694
Shares sold	3,534,946	4,700,650
Shares redeemed	(5,348,825)	(4,264,751)
Net increase (decrease) in Portfolio shares	(1,813,879)	435,899
Shares outstanding at end of period	<b>16,708,714</b>	<b>18,522,593</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,358,975	52,833
Shares sold	996,848	1,310,980
Shares redeemed	(105,471)	(4,838)
Net increase (decrease) in Portfolio shares	891,377	1,306,142
Shares outstanding at end of period	<b>2,250,352</b>	<b>1,358,975</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 11.34	\$ 8.53	\$ 12.80	\$ 21.64	\$ 26.54
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	(.05)	(.04)	(.02)	(.02)	(.09)
Net realized and unrealized gain (loss) on investment transactions	1.30	2.85	(4.25)	(6.27)	(2.01)
<b>Total from investment operations</b>	<b>1.25</b>	<b>2.81</b>	<b>(4.27)</b>	<b>(6.29)</b>	<b>(2.10)</b>
<i>Less distributions from:</i>					
Net realized gains on investment transactions	—	—	—	(2.52)	(2.80)
Return of capital	—	—	—	(.03)	—
<b>Total distributions</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(2.55)</b>	<b>(2.80)</b>
<b>Net asset value, end of period</b>	<b>\$ 12.59</b>	<b>\$ 11.34</b>	<b>\$ 8.53</b>	<b>\$ 12.80</b>	<b>\$ 21.64</b>
Total Return (%)	11.02	32.94	(33.36)	(28.91)	(10.71)

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	210	210	154	232	301
Ratio of expenses (%)	.71	.69	.71	.68	.72
Ratio of net investment income (loss) (%)	(.47)	(.41)	(.24)	(.12)	(.34)
Portfolio turnover rate (%)	117	123	68	143	124

<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

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 11.29	\$ 8.52	\$ 9.39
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	(.10)	(.09)	(.02)
Net realized and unrealized gain (loss) on investment transactions	1.29	2.86	(.85)
<b>Total from investment operations</b>	<b>1.19</b>	<b>2.77</b>	<b>(.87)</b>
<b>Net asset value, end of period</b>	<b>\$ 12.48</b>	<b>\$ 11.29</b>	<b>\$ 8.52</b>
Total Return (%)	10.54	32.51	(9.27)**

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	28	15	.5
Ratio of expenses before expense reduction (%)	1.10	1.08	.96*
Ratio of expenses after expense reduction (%)	1.09	1.08	.96*
Ratio of net investment income (loss) (%)	(.85)	(.80)	(.39)*
Portfolio turnover rate (%)	117	123	68

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

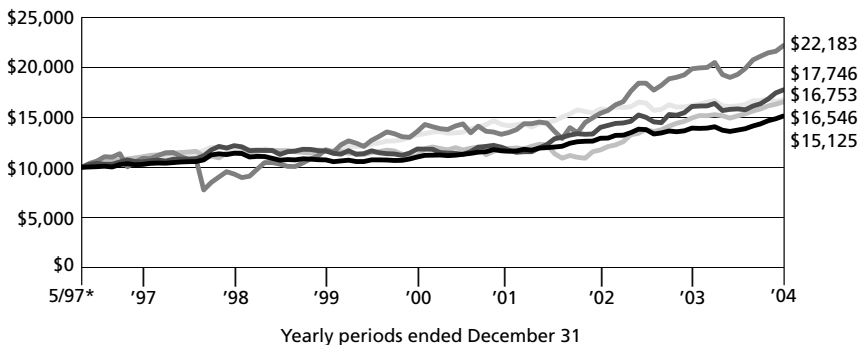
## Scudder Strategic Income Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

The Portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Additionally, investments by the Portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. Finally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. All of these factors may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in Scudder Strategic Income Portfolio from 5/1/1997 to 12/31/2004

- Scudder Strategic Income Portfolio — Class A
- Citigroup World Government Bond Index
- JP Morgan Emerging Markets Bond Plus Index
- Merrill Lynch High Yield Master Index
- Lehman Brothers US Treasury Index



The Citigroup World Government Bond Index (formerly known as 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 Merrill Lynch High Yield Master Index is an unmanaged index which tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market. Lehman Brothers US 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.

Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder Strategic Income Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$10,860	\$13,036	\$14,070	\$15,125
	Average annual total return	8.60%	9.24%	7.07%	5.54%
Citigroup World Government Bond Index	Growth of \$10,000	\$11,035	\$15,152	\$15,241	\$17,746
	Average annual total return	10.35%	14.86%	8.79%	7.77%
JP Morgan Emerging Markets Bond Plus Index	Growth of \$10,000	\$11,177	\$16,449	\$18,876	\$22,183
	Average annual total return	11.77%	18.05%	13.55%	10.94%
Merrill Lynch High Yield Master Index	Growth of \$10,000	\$11,076	\$13,931	\$14,234	\$16,546
	Average annual total return	10.76%	11.68%	7.32%	6.79%
Lehman Brothers US Treasury Index	Growth of \$10,000	\$10,354	\$11,834	\$14,340	\$16,753
	Average annual total return	3.54%	5.77%	7.48%	6.96%

The growth of \$10,000 is cumulative.

Effective 5/1/2000 the Portfolio changed its investment objective.

\* The Portfolio commenced operations on May 1, 1997. Index returns begin April 30, 1997.

## Comparative Results

Scudder Strategic Income Portfolio		1-Year	Life of Class*
Class B	Growth of \$10,000	\$10,827	\$11,149
	Average annual total return	8.27%	6.73%
Citigroup World Government Bond Index	Growth of \$10,000	\$11,035	\$12,153
	Average annual total return	10.35%	12.41%
JP Morgan Emerging Markets Bond Plus Index	Growth of \$10,000	\$11,177	\$12,597
	Average annual total return	11.77%	14.80%
Merrill Lynch High Yield Master Index	Growth of \$10,000	\$11,076	\$12,481
	Average annual total return	10.76%	14.22%
Lehman Brothers US Treasury Index	Growth of \$10,000	\$10,354	\$10,434
	Average annual total return	3.54%	2.70%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced offering Class B shares on May 1, 2003. Index returns begin April 30, 2003.



# Information About Your Portfolio's Expenses

## Scudder Strategic Income Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,101.60	\$ 1,099.30
Expenses Paid per \$1,000*	\$ 4.47	\$ 6.40
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,020.95	\$ 1,019.11
Expenses Paid per \$1,000*	\$ 4.30	\$ 6.15

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — Scudder Strategic Income Portfolio	.84%	1.21%

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

## Scudder Strategic Income Portfolio

The past 12 months have been a positive environment for high-yield and emerging-markets bonds because there has been just enough economic recovery present to (1) keep the corporate balance sheets of high-yield issuers healthy and (2) to keep the “carry trade”<sup>\*</sup> profitable for emerging-markets investors. For the 12-month period ended December 31, 2004, the portfolio posted an 8.60% total return (Class A shares, unadjusted for contract charges). This compares with the portfolio benchmarks’ returns of 11.77% for the JP Morgan Emerging Markets Bond Plus Index, 10.76% for the Merrill Lynch High Yield Master Index, 3.54% for the Lehman Brothers US Treasury Index and 10.35% for the Citigroup World Government Bond Index. Please see page 112 for standardized performance as of December 31, 2004.

For the period, we diversified and increased our exposure to the high-yield market through investments in individual high-yield bond issues. Previously, due to the smaller size of the portfolio, its high-yield bond exposure was made through a single high-yield bond which sought to track the returns of the high-yield market. During the period, we also increased our stake in emerging-markets securities, as we believed those securities were trading at attractive yields and the fundamentals of those countries were also attractive. We also reduced exposure to foreign bonds in order to fund the increases in high-yield and emerging-markets securities.

<sup>\*</sup> A “carry trade” is where investors borrow short term and invest longer term in fixed-income investments such as emerging markets bonds to capture higher Yulos.

Jan C. Faller

Lead Manager

Andrew P. Cestone

Sean P. McCaffrey

Portfolio Managers

Deutsche Investment Management Americas Inc.

Brett Diment

Edwin Gutierrez

Portfolio Managers

Deutsche Asset Management Investment Services Ltd.

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product’s most recent month-end performance. Performance doesn’t reflect charges and fees (“contract charges”) associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Additionally, investments by the portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. Finally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. All of these factors may result in greater share price volatility. Please read this portfolio’s prospectus for specific details regarding its investments and risk profile.

*The 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 Merrill Lynch High Yield Master Index is an unmanaged index which tracks the performance of below-investment-grade US dollar-denominated corporate bonds publicly issued in the United States domestic market.*

*The Lehman Brothers US 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.*

*The Citigroup World Government Bond Index (formerly known as 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.*

*Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## Scudder Strategic Income Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Corporate Bonds	40%	14%
Foreign Bonds — US\$ Denominated	21%	9%
Foreign Bonds — Non US\$ Denominated	19%	37%
US Government Backed	13%	22%
US Government Sponsored Agencies	4%	12%
Cash Equivalents	2%	6%
Other	1%	—
	<b>100%</b>	<b>100%</b>

<b>Quality</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>
AAA*	30%
AA	2%
A	4%
BBB	5%
BB	16%
B	31%
CCC	6%
Below CC	1%
Not rated	5%
	<b>100%</b>

\* Includes cash equivalents

<b>Interest Rate Sensitivity</b>	<b>12/31/04</b>	<b>12/31/03</b>
Average maturity	7.5 years	13.7 years
Average duration	5.4 years	6.7 years

Asset allocation, quality and interest rate sensitivity are subject to change.

The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Fund's credit quality does not remove market risk.

For more complete details about the Portfolio's investment portfolio, see page 117. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Strategic Income Portfolio

	Principal Amount (\$) (c)	Value (\$)		Principal Amount (\$) (c)	Value (\$)
<b>Corporate Bonds 38.9%</b>					
<b>Consumer Discretionary 9.0%</b>					
Adesa, Inc., 7.625%, 6/15/2012	45,000	47,475	Mothers Work, Inc., 11.25%, 8/1/2010	45,000	43,650
AMC Entertainment, Inc., 8.0%, 3/1/2014	105,000	104,475	NCL Corp., 144A, 10.625%, 7/15/2014	125,000	125,000
American Lawyer Media, Inc., Series B, 9.75%, 12/15/2007	105,000	106,181	Norcraft Holdings/Capital, Step-up Coupon, 0% to 9/1/2008, 9.75% to 9/1/2012	95,000	71,250
Atlantic Broadband Finance LLC, 144A, 9.375%, 1/15/2014	113,000	109,328	Paxson Communications Corp., 10.75%, 7/15/2008 (e)	75,000	78,750
Bally Total Fitness Holdings Corp., 10.5%, 7/15/2011	100,000	100,750	PEI Holding, Inc., 11.0%, 3/15/2010	110,000	128,150
Cablevision Systems New York Group, 144A, 6.669%**, 4/1/2009 (e)	65,000	68,900	Petro Stopping Centers, 9.0%, 2/15/2012	160,000	169,200
Caesars Entertainment, Inc., 9.375%, 2/15/2007	30,000	33,075	Pinnacle Entertainment, Inc., 8.75%, 10/1/2013 (e)	40,000	43,300
Carrols Corp., 144A, 9.0%, 1/15/2013	30,000	31,050	Premier Entertainment Biloxi LLC/Finance, 10.75%, 2/1/2012	80,000	87,400
Charter Communications Holdings LLC:			PRIMEDIA, Inc.:		
Step-up Coupon, 0% to 5/15/2006, 11.75% to 5/15/2011	250,000	183,750	7.665%**, 5/15/2010	140,000	148,400
9.625%, 11/15/2009 (e)	155,000	136,012	8.875%, 5/15/2011 (e)	95,000	100,462
10.25%, 9/15/2010 (e)	325,000	344,500	Renaissance Media Group LLC, 10.0%, 4/15/2008	85,000	87,550
Cooper Standard Automotive, Inc., 144A, 8.375%, 12/15/2014	40,000	39,900	Rent-Way, Inc., 11.875%, 6/15/2010	55,000	61,944
CSC Holdings, Inc., 7.875%, 12/15/2007	100,000	107,250	Restaurant Co., 11.25%, 5/15/2008	118,709	120,193
Dex Media East LLC/Financial, 12.125%, 11/15/2012	371,000	452,156	Sbarro, Inc., 11.0%, 9/15/2009 (e)	75,000	75,750
DIMON, Inc., Series B, 9.625%, 10/15/2011	290,000	317,550	Schuler Homes, Inc., 10.5%, 7/15/2011	105,000	119,438
Dura Operating Corp.:			Simmons Bedding Co., 144A, Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014	105,000	64,050
Series B, 8.625%, 4/15/2012 (e)	35,000	36,400	Sinclair Broadcast Group, Inc.:		
Series B, 9.0%, 5/1/2009 EUR	15,000	19,369	8.0%, 3/15/2012	220,000	233,750
Series D, 9.0%, 5/1/2009 (e)	55,000	54,450	8.75%, 12/15/2011	135,000	146,981
EchoStar DBS Corp., 144A, 6.625%, 10/1/2014	70,000	70,875	Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013	150,000	159,938
EPL Intermediate, Inc., Step-up Coupon, 0% to 3/15/2009, 12.5% to 3/15/2010	40,000	26,200	Toys "R" Us, Inc.:		
Foot Locker, Inc., 8.5%, 1/15/2022	45,000	49,500	7.375%, 10/15/2018	210,000	194,250
Friendly Ice Cream Corp., 8.375%, 6/15/2012 (e)	125,000	122,656	7.875%, 4/15/2013 (e)	60,000	59,550
General Motors Corp., 8.25%, 7/15/2023	90,000	93,750	True Temper Sports, Inc., 8.375%, 9/15/2011	60,000	55,800
Icon Health & Fitness, Inc., 11.25%, 4/1/2012	85,000	71,400	Trump Holdings & Funding, 12.625%, 3/15/2010*	75,000	81,188
Interep National Radio Sales, Inc., Series B, 10.0%, 7/1/2008 (e)	80,000	60,300	TRW Automotive, Inc.:		
J Crew Intermediate LLC, Step-up Coupon, 0% to 11/15/2005, 16.0% to 5/15/2008	83,326	79,151	11.0%, 2/15/2013 (e)	90,000	108,450
Jacobs Entertainment Co., 11.875%, 2/1/2009	190,000	214,700	11.75%, 2/15/2013 EUR	45,000	74,623
Levi Strauss & Co.:			United Auto Group, Inc., 9.625%, 3/15/2012	90,000	99,450
7.0%, 11/1/2006 (e)	80,000	84,000	Venetian Casino Resort LLC, 11.0%, 6/15/2010	105,000	119,831
12.25%, 12/15/2012 (e)	10,000	11,125	VICORP Restaurants, Inc., 10.5%, 4/15/2011 (e)	60,000	60,300
Mediacom LLC, 9.5%, 1/15/2013 (e)	185,000	185,694	Virgin River Casino Corp., 144A, 9.0%, 1/15/2012	10,000	10,400
MGM MIRAGE:			Visteon Corp.:		
8.375%, 2/1/2011 (e)	165,000	186,038	7.0%, 3/10/2014 (e)	95,000	90,725
9.75%, 6/1/2007	30,000	33,300	8.25%, 8/1/2010 (e)	75,000	78,563
			Wheeling Island Gaming, Inc., 10.125%, 12/15/2009	85,000	90,525
			Williams Scotsman, Inc., 9.875%, 6/1/2007 (e)	170,000	170,000

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

	Principal Amount (\$) (c)	Value (\$)
Worldspan LP/WVS Finance Corp., 9.625%, 6/15/2011 (e)	80,000	79,600
Wynn Las Vegas LLC, 144A, 6.625%, 12/1/2014	205,000	202,950
XM Satellite Radio, Inc., Step-up Coupon, 0% to 12/31/2005, 14.0% to 12/31/2009	106,321	108,447
Young Broadcasting, Inc., 8.75%, 1/15/2014 (e)	135,000	136,013
		<b>7,467,081</b>
<b>Consumer Staples 1.1%</b>		
Church & Dwight Co., Inc., 144A, 6.0%, 12/15/2012	55,000	55,962
Duane Reade, Inc.:		
144A, 7.01%**, 12/15/2010	40,000	40,600
144A, 9.75%, 8/1/2011 (e)	105,000	95,550
North Atlantic Holding, Inc., Step-up Coupon, 0% to 3/1/2008, 12.25% to 3/1/2014	80,000	32,800
Pierre Foods, Inc., 144A, 9.875%, 7/15/2012	40,000	41,400
Pinnacle Foods Holding Corp.:		
144A, 8.25%, 12/1/2013	45,000	42,863
144A, 8.25%, 12/1/2013 (e)	75,000	71,437
Prestige Brands, Inc., 144A, 9.25%, 4/15/2012	25,000	26,563
Revlon Consumer Products Corp., 9.0%, 11/1/2006	100,000	99,000
Rite Aid Corp., 11.25%, 7/1/2008	130,000	141,050
Standard Commercial Corp., 8.0%, 4/15/2012	50,000	51,375
Swift & Co., 12.5%, 1/1/2010	85,000	96,050
Wornick Co., 10.875%, 7/15/2011	80,000	86,800
		<b>881,450</b>
<b>Energy 2.1%</b>		
Avista Corp., 9.75%, 6/1/2008	140,000	162,324
Chesapeake Energy Corp.:		
6.875%, 1/15/2016	105,000	109,987
9.0%, 8/15/2012	55,000	62,838
CITGO Petroleum Corp., 144A, 6.0%, 10/15/2011	40,000	39,800
Dynegy Holdings, Inc.:		
6.875%, 4/1/2011 (e)	20,000	19,250
7.125%, 5/15/2018 (e)	105,000	93,581
7.625%, 10/15/2026	35,000	30,406
144A, 9.875%, 7/15/2010	115,000	128,513
Edison Mission Energy, 7.73%, 6/15/2009	200,000	215,000
El Paso Production Holding Corp., 7.75%, 6/1/2013	115,000	120,463
Mission Resources Corp., 9.875%, 4/1/2011	100,000	106,750
Newpark Resources, Inc., Series B, 8.625%, 12/15/2007	130,000	131,950
Southern Natural Gas, 8.875%, 3/15/2010	75,000	84,000
Stone Energy Corp.:		
144A, 6.75%, 12/15/2014	55,000	54,863
8.25%, 12/15/2011	130,000	140,400
Williams Cos., Inc.:		
8.125%, 3/15/2012 (e)	130,000	150,150
8.75%, 3/15/2032	70,000	80,412
		<b>1,730,687</b>

### Financials 9.1%

	Principal Amount (\$) (c)	Value (\$)
AAC Group Holding Corp., 144A, Step-up Coupon, 0% to 10/1/2008, 10.25% to 10/1/2012	85,000	57,163
Affinia Group, Inc., 144A, 9.0%, 11/30/2014	155,000	161,587
Ahold Finance USA, Inc., 6.25%, 5/1/2009	65,000	67,600
Alamosa Delaware, Inc., Step-up Coupon, 0% to 7/31/2005, 12.0% to 7/31/2009	55,000	59,675
AmeriCredit Corp., 9.25%, 5/1/2009	200,000	214,500
Atlantic Mutual Insurance Co., 144A, 8.15%, 2/15/2028	40,000	24,392
BF Saul (REIT), 7.5%, 3/1/2014	145,000	149,350
Dow Jones CDX:		
144A, Series 3-1, 7.75%, 12/29/2009 (e)	3,150,000	3,238,593
144A, Series 3-3, 8.0%, 12/29/2009	150,000	153,844
E*TRADE Financial Corp., 144A, 8.0%, 6/15/2011	165,000	177,375
Farmers Insurance Exchange, 144A, 8.625%, 5/1/2024	155,000	182,832
FINOVA Group, Inc., 7.5%, 11/15/2009	894,250	438,182
LNR Property Corp., 7.625%, 7/15/2013	50,000	56,750
Poster Financial Group, Inc., 8.75%, 12/1/2011 (e)	100,000	102,750
PXRE Capital Trust I, 8.85%, 2/1/2027	90,000	90,000
Qwest Capital Funding, Inc., 6.5%, 11/15/2018	95,000	78,850
R.H. Donnelly Finance Corp. 10.875%, 12/15/2012	45,000	53,438
Radnor Holdings Corp., 11.0%, 3/15/2010	100,000	85,750
Tennessee Valley Authority, 6.79%, 5/23/2012	1,500,000	1,727,190
TIG Capital Holdings Trust, 144A, 8.597%, 1/15/2027	130,000	114,075
UAP Holdings Corp., 144A, Step-up Coupon, 0% to 1/15/2008, 10.75% to 7/15/2012	55,000	43,175
UGS Corp., 144A, 10.0%, 6/1/2012	75,000	85,313
Universal City Development, 11.75%, 4/1/2010	150,000	177,187
Universal City Florida Holding Co., 144A, 7.2%***, 5/1/2010	40,000	41,600
Venoco, Inc., 144A, 8.75%, 12/15/2011	40,000	41,200
		<b>7,622,371</b>

### Health Care 1.2%

AmeriPath, Inc., 10.5%, 4/1/2013 (e)	70,000	74,375
Cinacalcet Royalty Subordinated LLC, 8.0%, 3/30/2017	95,000	95,475
Curative Health Services, Inc., 10.75%, 5/1/2011	60,000	53,700
Encore Medical Corp., 144A, 9.75%, 10/1/2012	50,000	50,500

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	Principal Amount (\$) (c)	Value (\$)		Principal Amount (\$) (c)	Value (\$)
Hanger Orthopedic Group, Inc., 10.375%, 2/15/2009 (e)	90,000	92,925	Kansas City Southern: 7.5%, 6/15/2009	190,000	199,500
HEALTHSOUTH Corp., 10.75%, 10/1/2008 (e)	140,000	147,700	9.5%, 10/1/2008	105,000	119,306
IDI Acquisition Corp., 144A, 10.75%, 12/15/2011	30,000	30,750	Kinetek, Inc., Series D, 10.75%, 11/15/2006	180,000	175,950
InSight Health Services Corp., Series B, 9.875%, 11/1/2011 (e)	65,000	65,650	Laidlaw International, Inc., 10.75%, 6/15/2011	100,000	116,750
Interactive Health LLC, 144A, 7.25%, 4/1/2011	70,000	60,900	Millennium America, Inc.: 7.625%, 11/15/2026 (e)	170,000	167,450
National Mentor, Inc., 144A, 9.625%, 12/1/2012	15,000	15,937	9.25%, 6/15/2008 (e)	155,000	176,312
Tenet Healthcare Corp., 6.375%, 12/1/2011 (e)	350,000	324,625	Remington Arms Co., Inc., 10.5%, 2/1/2011 (e)	75,000	72,375
		<u>1,012,537</u>	Sea Containers Ltd., 10.5%, 5/15/2012	50,000	52,625
<b>Industrials 5.1%</b>			Securus Technologies, Inc., 144A, 11.0%, 9/1/2011	95,000	95,000
Aavid Thermal Technologies, Inc., 12.75%, 2/1/2007	90,000	98,550	Ship Finance International Ltd., 8.5%, 12/15/2013	110,000	113,300
Allied Security Escrow Corp., 144A, 11.375%, 7/15/2011	85,000	88,825	SPX Corp.: 6.25%, 6/15/2011 (e)	35,000	36,925
Allied Waste North America, Inc., Series B, 5.75%, 2/15/2011	270,000	253,800	7.5%, 1/1/2013	135,000	146,475
AMI Semiconductor, Inc., 10.75%, 2/1/2013	30,000	35,250	Technical Olympic USA, Inc.: 7.5%, 3/15/2011	50,000	50,375
Avondale Mills, Inc.: 144A, 9.0%***, 7/1/2012	95,000	85,500	10.375%, 7/1/2012	105,000	117,600
10.25%, 7/1/2013 (e)	30,000	24,300	Texas Genco LLC, 144A, 6.875%, 12/15/2014	105,000	108,544
Browning-Ferris Industries: 7.4%, 9/15/2035	70,000	61,250	The Brickman Group, Ltd., Series B, 11.75%, 12/15/2009	55,000	64,350
9.25%, 5/1/2021	20,000	21,300	Thermadyne Holdings Corp., 9.25%, 2/1/2014 (e)	70,000	68,250
Cenveo Corp., 7.875%, 12/1/2013 (e)	120,000	111,600	United Rentals North America, Inc.: 6.5%, 2/15/2012	100,000	97,500
Clean Harbors, Inc., 144A, 11.25%, 7/15/2012	55,000	61,600	7.0%, 2/15/2014 (e)	80,000	74,800
Collins & Aikman Floor Cover, Series B, 9.75%, 2/15/2010	179,000	192,425	7.75%, 11/15/2013 (e)	50,000	49,000
Collins & Aikman Products, 10.75%, 12/31/2011 (e)	105,000	107,100	Westlake Chemical Corp., 8.75%, 7/15/2011	13,000	14,690
Congoleum Corp., 8.625%, 8/1/2008*	50,000	50,500			<u>4,263,884</u>
Continental Airlines, Inc., 8.0%, 12/15/2005 (e)	90,000	87,750	<b>Information Technology 0.6%</b>		
Cornell Companies, Inc., 10.75%, 7/1/2012	115,000	122,906	Activant Solutions, Inc., 10.5%, 6/15/2011	90,000	96,750
Corrections Corp. of America, 9.875%, 5/1/2009	95,000	105,450	Itron, Inc., 144A, 7.75%, 5/15/2012	65,000	66,138
Dana Corp., 7.0%, 3/1/2029 (e)	125,000	124,688	Lucent Technologies, Inc.: 6.45%, 3/15/2029 (e)	275,000	248,875
Delta Air Lines, Inc.: 7.9%, 12/15/2009 (e)	45,000	28,125	7.25%, 7/15/2006 (e)	35,000	36,575
8.3%, 12/15/2029 (e)	60,000	29,100	Spheris, Inc., 144A, 11.0%, 12/15/2012	50,000	51,250
Eagle-Picher Industries, Inc., 9.75%, 9/1/2013	20,000	20,000			<u>499,588</u>
Erico International Corp., 8.875%, 3/1/2012	75,000	78,750	<b>Materials 4.9%</b>		
Evergreen International Aviation, Inc., 12.0%, 5/15/2010	25,000	18,938	Aqua Chemical, Inc., 11.25%, 7/1/2008	100,000	80,000
Goodman Global Holding Co., Inc., 144A, 7.875%, 12/15/2012	125,000	123,750	ARCO Chemical Co., 9.8%, 2/1/2020	430,000	490,200
Interface, Inc., "A", 10.375%, 2/1/2010	40,000	46,000	Associated Materials, Inc., Step-up Coupon, 0% to 3/1/2009, 11.25% to 3/1/2014	235,000	169,200
ISP Chemco, Inc., Series B, 10.25%, 7/1/2011	135,000	152,550	Caraustar Industries, Inc., 9.875%, 4/1/2011 (e)	90,000	97,650
Joy Global, Inc., Series B, 8.75%, 3/15/2012	15,000	16,800	Constar International, Inc., 11.0%, 12/1/2012 (e)	110,000	114,125
			Dayton Superior Corp.: 10.75%, 9/15/2008	85,000	90,950
			13.0%, 6/15/2009 (e)	200,000	208,000

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	Principal Amount (\$) (c)	Value (\$)		Principal Amount (\$) (c)	Value (\$)
GEO Specialty Chemicals, Inc., 10.125%, 8/1/2008*	65,000	37,700	Dobson Cellular Systems, Inc., 144A, 6.96%***, 11/1/2011	40,000	41,400
Georgia-Pacific Corp.:			Dobson Communications Corp., 8.875%, 10/1/2013 (e)	110,000	77,275
8.0%, 1/15/2024	235,000	272,600	GCI, Inc., 7.25%, 2/15/2014	80,000	80,000
9.375%, 2/1/2013	115,000	133,975	Insight Midwest LP, 9.75%, 10/1/2009 (e)	50,000	52,375
Hercules, Inc.:			IWO Escrow Co., 144A, 6.32%***, 1/15/2012	10,000	10,075
6.75%, 10/15/2029	75,000	77,437	LCI International, Inc., 7.25%, 6/15/2007	140,000	136,150
11.125%, 11/15/2007	105,000	124,950	Level 3 Financing, Inc., 144A, 10.75%, 10/15/2011 (e)	50,000	45,250
Hexcel Corp., 9.75%, 1/15/2009	85,000	88,400	MCI, Inc., 8.735%, 5/1/2014	280,000	301,000
Huntsman Advanced Materials, 144A, 11.0%, 7/15/2010	115,000	136,850	Nextel Communications, Inc., 5.95%, 3/15/2014	65,000	67,275
Huntsman International LLC:			Nextel Partners, Inc., 8.125%, 7/1/2011	85,000	94,350
144A, 7.375%, 1/1/2015 (e)	40,000	40,100	PanAmSat Corp., 144A, 9.0%, 8/15/2014	185,000	206,506
144A, 7.5%, 1/1/2015 EUR	15,000	20,389	Qwest Corp., 7.25%, 9/15/2025 (e)	440,000	427,900
Huntsman LLC, 11.625%, 10/15/2010	135,000	159,637	Qwest Services Corp.:		
IMC Global, Inc., 10.875%, 8/1/2013 (e)	10,000	12,500	144A, 13.5%, 12/15/2004	180,000	216,450
Intermet Corp., 9.75%, 6/15/2009* (e)	55,000	26,950	144A, 14.0%, 12/15/2004	120,000	151,800
International Steel Group, Inc., 6.5%, 4/15/2014	190,000	203,775	Rural Cellular Corp., 9.875%, 2/1/2010 (e)	75,000	76,312
MMI Products, Inc., Series B, 11.25%, 4/15/2007	85,000	86,275	SBA Telecom, Inc., Step-up Coupon, 0% to 12/15/2007, 9.75% to 12/15/2011	35,000	29,488
Neenah Corp.:			Triton PCS, Inc., 8.5%, 6/1/2013	65,000	62,725
144A, 11.0%, 9/30/2010	160,000	176,800	Ubiquitel Operating Co., 9.875%, 3/1/2011 (e)	20,000	22,450
144A, 13.0%, 9/30/2013	74,000	75,850	US Unwired, Inc., Series B, 10.0%, 6/15/2012	105,000	118,387
Omnova Solutions, Inc., 11.25%, 6/1/2010	135,000	151,875	Western Wireless Corp., "A", 9.25%, 7/15/2013	15,000	16,313
Owens-Brockway Glass Container, 8.25%, 5/15/2013 (e)	35,000	38,500			<b>3,330,300</b>
Oxford Automotive, Inc., 144A, 12.0%, 10/15/2010* (e)	175,000	110,250	<b>Utilities 1.8%</b>		
Pliant Corp.:			AES Corp., 144A, 8.75%, 5/15/2013	35,000	39,769
Step-up Coupon, 0% to 12/15/2006, 11.125% to 6/15/2009	20,000	18,475	Allegheny Energy Supply Co. LLC, 144A, 8.25%, 4/15/2012 (e)	65,000	72,637
11.125%, 9/1/2009	120,000	130,800	Aquila, Inc., 14.875%, 7/1/2012	35,000	49,044
Portola Packaging, Inc., 8.25%, 2/1/2012 (e)	80,000	63,200	Calpine Corp.:		
Rockwood Specialties Group, Inc., 144A, 7.625%, 11/15/2014 EUR	140,000	195,766	8.25%, 8/15/2005 (e)	90,000	90,900
Sheffield Steel Corp., 144A, 11.375%, 8/15/2011	55,000	56,650	144A, 8.5%, 7/15/2010 (e)	140,000	120,050
TriMas Corp., 9.875%, 6/15/2012	250,000	265,000	CMS Energy Corp., 8.5%, 4/15/2011	15,000	17,044
United States Steel LLC:			DPL, Inc., 6.875%, 9/1/2011	235,000	256,651
9.75%, 5/15/2010	105,000	119,700	Midwest Generation LLC, 8.75%, 5/1/2034	50,000	56,750
10.75%, 8/1/2008	15,000	17,663	Mission Energy Holding Co., 13.5%, 7/15/2008	15,000	18,712
		<b>4,092,192</b>	NorthWestern Corp., 144A, 5.875%, 11/1/2014 (e)	35,000	35,804
<b>Telecommunication Services 4.0%</b>			NRG Energy, Inc., 144A, 8.0%, 12/15/2013	340,000	370,600
AirGate PCS, Inc., 144A, 5.85%***, 10/15/2011	45,000	46,238	PSE&G Energy Holdings LLC:		
American Cellular Corp., Series B, 10.0%, 8/1/2011	325,000	278,687	8.5%, 6/15/2011	95,000	108,419
American Tower Corp., 144A, 7.125%, 10/15/2012	55,000	56,238	10.0%, 10/1/2009	110,000	130,075
AT&T Corp.:			TNP Enterprises, Inc., Series B, 10.25%, 4/1/2010	125,000	133,438
9.05%, 11/15/2011	115,000	132,394			<b>1,499,893</b>
9.75%, 11/15/2031	110,000	131,312	<b>Total Corporate Bonds (Cost \$31,545,234)</b>		<b>32,399,983</b>
Cincinnati Bell, Inc., 8.375%, 1/15/2014 (e)	380,000	384,750			
Crown Castle International Corp., 9.375%, 8/1/2011	60,000	67,200			

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	Principal Amount (\$) (c)	Value (\$)
<b>Foreign Bonds — US\$ Denominated 20.8%</b>		
<b>Consumer Discretionary 1.3%</b>		
Advertising Directory Solutions, Inc., 144A, 9.25%, 11/15/2012 (e)	70,000	73,500
Jafra Cosmetics International, Inc., 10.75%, 5/15/2011	150,000	169,500
Kabel Deutschland GmbH, 144A, 10.625%, 7/1/2014	150,000	172,500
Shaw Communications, Inc.:		
7.2%, 12/15/2011 (e)	20,000	22,075
7.25%, 4/6/2011 (e)	75,000	82,688
8.25%, 4/11/2010	195,000	221,812
Telenet Group Holding NV, 144A, Step-up Coupon, 0% to 12/15/2008, 11.5% to 6/15/2014	150,000	114,000
Vitro Envases Norteamerica SA, 144A, 10.75%, 7/23/2011	55,000	57,062
Vitro SA de CV, Series A, 144A, 11.75%, 11/1/2013 (e)	140,000	135,450
		<b>1,048,587</b>
<b>Consumer Staples 0.5%</b>		
Burns Philip Capital Property, Ltd., 10.75%, 2/15/2011	90,000	101,250
Fage Dairy Industry SA, 9.0%, 2/1/2007	250,000	251,250
Grupo Cosan SA, 144A, 9.0%, 11/1/2009	30,000	31,350
		<b>383,850</b>
<b>Energy 1.3%</b>		
Gazprom OAO, 144A, 9.625%, 3/1/2013	200,000	236,000
Luscar Coal Ltd., 9.75%, 10/15/2011	115,000	130,525
Petroleum Geo-Services ASA, 10.0%, 11/5/2010	405,005	461,706
Petroliam Nasional Berhad:		
7.625%, 10/15/2026	40,000	48,676
7.75%, 8/15/2015	80,000	97,546
Secunda International Ltd., 144A, 9.76%**, 1/18/2005	90,000	88,200
		<b>1,062,653</b>
<b>Financials 0.7%</b>		
Central Bank of Nigeria, Series WW, 6.25%, 11/15/2020	250,000	234,375
Conproca SA de CV, 12.0%, 6/16/2010	100,000	126,000
Eircom Funding, 8.25%, 8/15/2013	95,000	104,975
Mizuho Financial Group, 8.375%, 12/29/2049	50,000	54,795
New ASAT (Finance) Ltd., 144A, 9.25%, 2/1/2011 (e)	115,000	104,363
		<b>624,508</b>
<b>Health Care 0.1%</b>		
Biovail Corp., 7.875%, 4/1/2010	70,000	72,450
Elan Financial PLC, 144A, 7.75%, 11/15/2011	20,000	21,300
		<b>93,750</b>

### Industrials 1.0%

CP Ships Ltd., 10.375%, 7/15/2012	110,000	126,913
Grupo Transportacion Ferroviaria Mexicana SA de CV:		
10.25%, 6/15/2007	235,000	250,275
11.75%, 6/15/2009	120,000	122,250
12.5%, 6/15/2012	105,000	122,587
LeGrand SA, 8.5%, 2/15/2025	100,000	118,000
Stena AB:		
144A, 7.0%, 12/1/2016	30,000	29,700
9.625%, 12/1/2012	35,000	39,550
		<b>809,275</b>

### Information Technology 0.2%

Flextronics International Ltd., 144A, 6.25%, 11/15/2014	125,000	123,750
Magnachip Semiconductor SA:		
144A, 6.875%, 12/15/2011	40,000	41,200
144A, 8.0%, 12/15/2014	40,000	41,700
		<b>206,650</b>

### Materials 1.7%

Alrosa Finance SA, 144A, 8.875%, 11/17/2014	100,000	102,750
Avecia Group PLC, 11.0%, 7/1/2009	245,000	252,350
Cascades, Inc.:		
7.25%, 2/15/2013	145,000	153,700
144A, 7.25%, 2/15/2013	10,000	10,600
Citigroup (JSC Severstal), 144A, 9.25%, 4/19/2014	100,000	99,500
Citigroup Global (Severstal), 8.625%, 2/24/2009	40,000	40,164
Corp. Durango SA:		
13.125%, 8/1/2006* (e)	25,000	16,875
144A, 13.75%, 7/15/2009*	40,000	26,800
Crown Euro Holdings SA, 10.875%, 3/1/2013	75,000	88,687
ISPAT Inland ULC, 9.75%, 4/1/2014	97,000	119,795
Rhodia SA, 8.875%, 6/1/2011 (e)	100,000	100,750
Sino-Forest Corp., 144A, 9.125%, 8/17/2011	55,000	60,088
Tembec Industries, Inc., 8.5%, 2/1/2011 (e)	375,000	376,875
		<b>1,448,934</b>

### Sovereign Bonds 11.7%

Aries Vermögensverwaltung GmbH, Series C, 144A, 9.6%, 10/25/2014	250,000	306,750
Dominican Republic:		
9.04%, 1/23/2013	170,000	142,375
144A, 9.04%, 1/23/2013	45,000	37,238
9.5%, 9/27/2006	60,000	56,400

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	Principal Amount (\$) (c)	Value (\$)		Principal Amount (\$) (c)	Value (\$)
Federative Republic of Brazil:			8.125%, 12/30/2019	170,000	199,495
Floating Rate Note Debt			8.3%, 8/15/2031	240,000	281,280
Conversion Bond, LIBOR			Series A, 9.875%, 2/1/2010	220,000	270,380
plus .8125%, Series 30YR,	140,000	128,800			<b>9,771,072</b>
3.063%***, 4/15/2005					
Series 18YR, 3.125%***,	185,296	176,494	<b>Telecommunication Services 2.1%</b>		
4/15/2005			Alestra SA de RL de CV, 8.0%,	20,000	16,950
8.875%, 10/14/2019	130,000	137,020	6/30/2010		
9.25%, 10/22/2010	70,000	78,260	Axtel SA, 11.0%, 12/15/2013	125,000	134,687
11.0%, 8/17/2040	500,000	593,250	Embratel, Series B, 11.0%,	85,000	96,900
14.5%, 10/15/2009	220,000	293,348	12/15/2008		
Government of Ukraine, 7.65%,			Global Crossing UK Finance,	100,000	98,750
6/11/2013	430,000	459,240	144A, 10.75%, 12/15/2014		
Republic of Argentina:			Grupo Iusacell SA de CV, Series B,	20,000	15,400
9.75%, 9/19/2027*	590,000	195,408	10.0%, 7/15/2004*		
Series BGL4, 11.0%, 10/9/2006*	50,000	17,375	Inmarsat Finance PLC, 7.625%,	100,000	104,000
11.375%, 3/15/2010*	905,000	307,700	6/30/2012		
Series BGL5, 11.375%,			Innova S. de R.L., 9.375%,	65,000	73,938
1/30/2017*	15,000	5,100	9/19/2013 (e)		
11.75%, 4/7/2009*	120,000	40,800	INTELSAT, 6.5%, 11/1/2013	120,000	109,200
11.75%, 6/15/2015*	120,000	40,500	Millicom International Cellular		
12.375%, 2/21/2012*	200,000	67,500	SA, 144A, 10.0%, 12/1/2013	200,000	209,250
Republic of Bulgaria:			Mobifon Holdings BV, 12.5%,	135,000	160,144
Floating Rate Note Debt			7/31/2010		
Conversion Bond, LIBOR			Mobile Telesystems Financial,	70,000	71,400
plus .8125%, Series RIAB,	68,250	68,209	144A, 8.375%, 10/14/2010		
2.75%***, 1/28/2005			Nortel Networks Corp., 6.875%,	225,000	211,500
8.25%, 1/15/2015	540,000	678,996	9/1/2023		
Republic of Colombia:			Nortel Networks Ltd., 6.125%,	350,000	356,125
10.75%, 1/15/2013	110,000	131,450	2/15/2006		
11.755%, 2/25/2020	110,000	141,350	Rogers Wireless Communications,	75,000	74,250
Republic of Ecuador, Step-up			inc., 6.375%, 3/1/2014		
Coupon 8.0% to 8/15/2005,					<b>1,732,494</b>
9.0% to 8/15/2006, 10.0% to			<b>Utilities 0.2%</b>		
8/15/2030	480,000	414,000	Calpine Canada Energy Finance,	230,000	<b>188,600</b>
Republic of Philippines:			8.5%, 5/1/2008 (e)		
9.375%, 1/18/2017	460,000	477,825	<b>Total Foreign Bonds — US\$ Denominated</b>		
9.875%, 1/15/2019	70,000	71,750	(Cost \$16,198,231)		<b>17,370,373</b>
Republic of Turkey:					
7.25%, 3/15/2015 (e)	60,000	61,650	<b>Foreign Bonds — Non US\$ Denominated 18.9%</b>		
8.0%, 2/14/2034	60,000	62,250	<b>Consumer Discretionary 0.1%</b>		
9.0%, 6/30/2011	40,000	45,700	Victoria Acquisition III BV,		
9.5%, 1/15/2014	95,000	112,100	144A, 7.875%, 10/1/2014	50,000	<b>68,302</b>
11.0%, 1/14/2013	210,000	267,225	<b>Financials 3.7%</b>		
11.875%, 1/15/2030	420,000	604,800	KFW Bankengruppe, 5.0%,		
12.375%, 6/15/2009	280,000	351,400	7/4/2011	2,080,000	<b>3,108,550</b>
Republic of Uruguay, 7.875%,			<b>Industrials 0.2%</b>		
1/15/2033 (PIK)	399	354	Grohe Holdings GmbH,		
Republic of Venezuela:			144A, 8.625%, 10/1/2014	100,000	<b>145,440</b>
3.09%***, 4/20/2011	160,000	145,600	<b>Materials 0.2%</b>		
8.5%, 10/8/2014	130,000	137,800	Huntsman International		
9.375%, 1/13/2034	320,000	338,560	LLC, 10.125%, 7/1/2009	85,000	121,602
10.75%, 9/19/2013	270,000	323,325	Rhodia SA, 9.25%, 6/1/2011	70,000	96,812
Russian Federation, Step-up					<b>218,414</b>
Coupon, 5.0% to 3/31/2007,			<b>Sovereign Bonds 14.7%</b>		
7.5% to 3/31/2030	795,000	822,348	Aries Vermögensverwaltung		
Russian Ministry of Finance:			GmbH, Series B, 7.75%,		
Series V, 3.0%, 5/14/2008	100,000	92,960	10/25/2009	250,000	385,075
Series VII, 3.0%, 5/14/2011	40,000	33,732	Federal Republic of Germany,		
United Mexican States:			6.25%, 1/4/2024	1,310,000	2,276,270
6.625%, 3/3/2015	250,000	268,500	Federative Republic of		
Series A, 7.5%, 4/8/2033	210,000	226,800	Brazil, 11.0%, 2/4/2010	110,000	180,856
Series A, 8.0%, 9/24/2022	50,000	57,675			

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

		Principal Amount (\$) (c)	Value (\$)
Kingdom of Morocco, 1.918%, 1/5/2009	EUR	252,000	247,275
Mexican Bonds:			
Series M-20, 8.0%, 12/7/2023	MXN	5,150,000	360,828
Series MI-10, 8.0%, 12/19/2013	MXN	1,336,000	106,753
Province of Ontario 1.875%, 1/25/2010	JPY	140,000,000	1,450,427
Republic of Argentina:			
7.5%, 5/23/2049*	EUR	201,939	80,973
8.0%, 2/26/2008*	EUR	160,000	64,157
Series EMTN, 10.0%, 1/7/2049*	EUR	80,000	32,350
11.757%, 11/13/2026*	EUR	46,016	18,452
Republic of Colombia, 11.75%, 3/1/2010	COP	330,000,000	143,790
Republic of Greece, 4.65%, 4/19/2007	EUR	2,105,000	2,989,941
Republic of Romania, 8.5%, 5/8/2012	EUR	180,000	312,511
Republic of Turkey:			
20.0%, 10/17/2007	TRL	176,000,000,000	144,350
20.01%, 10/17/2007	TRL	178,735,000,000	146,593
United Kingdom Treasury Bond, 4.75%, 9/7/2015	GBP	1,700,000	3,315,206
			<b>12,255,807</b>
<b>Total Foreign Bonds — Non US\$ Denominated</b> (Cost \$13,367,878)			<b>15,796,513</b>

#### US Government Backed 12.6%

US Treasury Bond:			
5.375%, 2/15/2031 (e) (g)		540,000	583,917
6.0%, 2/15/2026 (g)		275,000	315,015
7.5%, 11/15/2016		570,000	728,420
8.5%, 2/15/2020 (g)		760,000	1,072,609
10.375%, 11/15/2012 (e) (g)		3,350,000	3,994,091
12.75%, 11/15/2010		500,000	542,129
US Treasury Note, 5.75%, 8/15/2010 (g)		3,000,000	3,302,931
<b>Total US Government Backed</b> (Cost \$10,363,769)			<b>10,539,112</b>

#### US Government Sponsored Agencies 3.6%

Federal Home Loan Mortgage Corp.:			
2.875%, 9/15/2005		500,000	500,164
5.125%, 7/15/2012		2,350,000	2,470,611
<b>Total US Government Sponsored Agencies</b> (Cost \$2,876,350)			<b>2,970,775</b>

#### Convertible Bond 0.2%

DIMON, Inc., 6.25%, 3/31/2007		135,000	126,562
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HIH Capital Ltd., 144A, Series DOM, 7.5%, 9/25/2006	55,000	54,450
<b>Total Convertible Bond</b> (Cost \$182,157)		<b>181,012</b>

**Shares Value (\$)**

#### Preferred Stocks 0.2%

Paxson Communications Corp., 14.25% (PIK)	17	124,950
TNP Enterprises, Inc., 14.5%, "D", (PIK)	560	64,960
<b>Total Preferred Stocks</b> (Cost \$220,199)		<b>189,910</b>

**Principal  
Amount (\$) (c) Value (\$)**

#### Loan Participation 0.1%

Republic of Algeria, Floating Rate Debt Conversion Bond, LIBOR plus .8125%, 2.813%**, 3/4/2010 (Cost \$111,247)	115,500	114,345
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**Shares Value (\$)**

#### Warrants 0.0%

Dayton Superior Corp., 144A*	10	0
TravelCenters of America, Inc.*	20	100
<b>Total Warrants</b> (Cost \$100)		<b>100</b>

#### Other Investments 0.3%

Hercules Trust II, (Bond Unit) (Cost \$249,250)	310,000	260,400
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#### Securities Lending Collateral 22.9%

Daily Assets Fund Institutional, 2.25% (d) (f) (Cost \$19,149,101)	19,149,101	19,149,101
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#### Cash Equivalents 2.3%

Scudder Cash Management QP Trust, 2.24% (b) (Cost \$1,936,248)	1,936,248	1,936,248
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**% of Net  
Assets Value (\$)**

<b>Total Investment Portfolio</b> (Cost \$96,199,764) (a)	120.8	100,907,872
<b>Other Assets and Liabilities, Net</b>	(20.8)	(17,400,185)
<b>Net Assets</b>	100.0	83,507,687

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

## 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. The following table represents bonds that are in default.

Security	Coupon	Maturity Date	Principal Amount	Acquisition Cost	Value
Congoleum Corp.	8.625	8/1/2008	50,000 USD	\$ 33,868	\$ 50,500
Corp. Durango SA:					
	13.125	8/1/2006	25,000 USD	12,719	16,875
	13.75	7/15/2009	40,000 USD	21,106	26,800
GEO Specialty Chemicals, Inc.	10.125	8/1/2008	65,000 USD	19,825	37,700
Grupo Iusacell SA de CV	10	12/29/2049	20,000 USD	13,175	15,400
Intermet Corp.	9.75	6/15/2009	55,000 USD	22,550	26,950
Oxford Automotive, Inc.	12	10/15/2010	175,000 USD	113,324	110,250
Republic of Argentina:					
	7.5	5/23/2049	201,939 EUR	60,356	80,973
	8	2/26/2008	160,000 EUR	51,060	64,157
	9.75	9/19/2027	590,000 USD	156,710	195,408
	10	1/7/2049	80,000 EUR	24,761	32,350
	11	10/9/2006	50,000 USD	11,000	17,375
	11.375	3/15/2010	905,000 USD	269,445	307,700
	11.375	1/30/2017	15,000 USD	4,669	5,100
	11.75	4/7/2009	120,000 USD	38,513	40,800
	11.75	6/15/2005	120,000 USD	38,871	40,500
	11.757	6/15/2005	46,016 EUR	11,189	18,452
	12.375	2/21/2012	200,000 USD	63,750	67,500
Trump Holdings & Funding	12.625	3/15/2010	75,000 USD	77,992	81,188
				\$ 1,044,883	\$ 1,235,978

\*\* 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, 2004.

- (a) The cost for federal income tax purposes was \$96,374,723. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$4,533,149. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$4,908,984 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$375,835.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Principal amount stated in US dollars unless otherwise noted.
- (d) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (e) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of securities loaned at December 31, 2004 amounted to \$18,781,631, which is 22.5% of total net assets.
- (f) Represents collateral held in connection with securities lending.
- (g) At December 31, 2004, these securities have been segregated, in whole or in part, to cover initial margin requirements for open futures contracts.

LIBOR: Represents the London InterBank Offered Rate

PIK: Denotes that all or a portion of income is paid in kind.

REIT: Real Estate Investment Trust

At December 31, 2004, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value (\$)	Value (\$)	Unrealized Appreciation/ (Depreciation) (\$)
10 year Canada Government Bond	3/21/2005	43	3,977,251	4,025,272	48,021
10 Year Germany Federal Rip Bond	3/8/2005	21	3,356,560	3,385,062	28,502
10 year Japanese Government Bond	3/10/2005	5	6,717,225	6,751,244	34,019
10 year US Treasury Note	3/21/2005	22	2,433,479	2,462,625	29,146
Total net unrealized appreciation					139,688

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

At December 31, 2004, open futures contracts sold short were as follows:

<b>Futures</b>	<b>Expiration Date</b>	<b>Contracts</b>	<b>Aggregate Face Value (\$)</b>	<b>Value (\$)</b>	<b>Unrealized Appreciation/ (Depreciation) (\$)</b>
UK Treasury Bond	3/29/2005	14	(2,980,247)	(2,998,579)	(18,332)
2 year US Treasury Note	3/31/2005	34	(7,119,144)	(7,126,188)	(7,044)
5 year US Treasury Note	3/31/2005	118	(12,868,415)	(12,924,688)	(56,273)
<b>Total net unrealized depreciation</b>					<b>(81,649)</b>

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

**Currency Abbreviations**

COP	Colombian Peso	EUR	Euro
GBP	British Pounds	JPY	Japanese Yen
MXN	Mexican Peso	TRL	Turkish Lira

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

#### Investments:

Investments in securities, at value (cost \$75,114,415) — including \$18,781,631 of securities loaned	\$ 79,822,523
Investment in Daily Assets Fund Institutional (cost \$19,149,101)*	19,149,101
Investment in Scudder Cash Management QP Trust (cost \$1,936,248)	1,936,248
Total investments in securities, at value (cost \$96,199,764)	100,907,872
Cash	160,875
Foreign currency, at value (cost \$554,845)	557,867
Receivable for investments sold	196,125
Interest receivable	1,625,195
Receivable for Portfolio shares sold	124,340
Receivable for daily variation margin on open futures contracts	13,960
Unrealized appreciation on forward foreign currency exchange contracts	258,057
Other assets	3,087
<b>Total assets</b>	<b>103,847,378</b>

### Liabilities

Payable for investments purchased	218,024
Payable upon return of securities loaned	19,149,101
Payable for Portfolio shares redeemed	4,722
Unrealized depreciation on forward foreign currency exchange contracts	837,337
Net payable on closed forward foreign currency exchange contracts	16,888
Accrued management fee	39,845
Other accrued expenses and payables	73,774
Total liabilities	20,339,691
<b>Net assets, at value</b>	<b>\$ 83,507,687</b>

### Net Assets

#### Net assets consist of:

Undistributed net investment income	7,007,553
Net unrealized appreciation (depreciation) on:	
Investments	4,708,108
Foreign currency related transactions	(601,642)
Futures	58,039
Accumulated net realized gain (loss)	(199,809)
Paid-in capital	72,535,438
<b>Net assets, at value</b>	<b>\$ 83,507,687</b>

#### Class A Shares

<b>Net asset value</b> , offering and redemption price per share (\$62,098,917 ÷ 5,069,464 shares outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.25</b>
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#### Class B Shares

<b>Net asset value</b> , offering and redemption price per share (\$21,408,770 ÷ 1,758,421 shares outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.17</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

#### Income:

Dividends (net of foreign taxes withheld of \$2,689)	\$ 34,413
Interest	4,278,030
Interest — Scudder Cash Management QP Trust	35,277
Securities lending income, including income from Daily Assets Fund Institutional	20,278
<b>Total Income</b>	<b>4,367,998</b>
Expenses:	
Management fee	487,494
Custodian fees	56,035
Distribution service fees (Class B)	39,636
Record keeping fees (Class B)	18,869
Auditing	54,998
Legal	15,015
Trustees' fees and expenses	385
Reports to shareholders	13,136
Other	4,204
Total expenses, before expense reductions	689,772
Expense reductions	(2,017)
Total expenses, after expense reductions	687,755
<b>Net investment income</b>	<b>3,680,243</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	2,947,088
Futures	(15,609)
Written options	266,667
Foreign currency related transactions	(915,344)
	2,282,802
Net unrealized appreciation (depreciation) during the period on:	
Investments	62,129
Futures	52,237
Written options	(13,130)
Foreign currency related transactions	288,862
	390,998
<b>Net gain (loss) on investment transactions</b>	<b>2,672,900</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 6,353,143</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,	
	2004	2003
Operations:		
Net investment income	\$ 3,680,243	\$ 2,379,002
Net realized gain (loss) on investment transactions	2,282,802	1,464,156
Net unrealized appreciation (depreciation) on investment transactions during the period	390,098	869,023
Net increase (decrease) in net assets resulting from operations	6,353,143	4,712,181
Distributions to shareholders from:		
Net investment income		
Class A	—	(853,600)
Net realized gains		
Class A	(2,822,807)	(28,838)
Class B	(547,427)	—
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	13,206,141	39,373,917
Reinvestment of distributions	2,822,807	882,438
Cost of shares redeemed	(17,995,166)	(41,393,653)
Net increase (decrease) in net assets from Class A share transactions	(1,966,218)	(1,137,298)
<b>Class B</b>		
Proceeds from shares sold	13,821,690	8,762,505
Reinvestment of distributions	547,427	—
Cost of shares redeemed	(2,371,956)	(662,224)
Net increase (decrease) in net assets from Class B share transactions	11,997,161	8,100,281
<b>Increase (decrease) in net assets</b>	<b>13,013,852</b>	<b>10,792,726</b>
Net assets at beginning of period	70,493,835	59,701,109
Net assets at end of period (including undistributed net investment income of \$7,007,553 and \$964,888, respectively)	<b>\$ 83,507,687</b>	<b>\$ 70,493,835</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	5,264,429	5,379,967
Shares sold	1,130,086	3,451,262
Shares issued to shareholders in reinvestment of distributions	247,832	78,789
Shares redeemed	(1,572,883)	(3,645,589)
Net increase (decrease) in Portfolio shares	(194,965)	(115,538)
Shares outstanding at end of period	<b>5,069,464</b>	<b>5,264,429</b>
<b>Class B</b>		
Shares outstanding at beginning of period	701,718	—
Shares sold	1,213,237	759,236
Shares issued to shareholders in reinvestment of distributions	48,231	—
Shares redeemed	(204,765)	(57,518)
Net increase (decrease) in Portfolio shares	1,056,703	701,718
Shares outstanding at end of period	<b>1,758,421</b>	<b>701,718</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001 <sup>a</sup>	2000 <sup>b</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 11.82</b>	<b>\$ 11.10</b>	<b>\$ 10.27</b>	<b>\$ 9.86</b>	<b>\$ 9.86</b>
<i>Income (loss) from investment operations:</i>					
Net investment income <sup>c</sup>	.58	.41	.45	.48	.51
Net realized and unrealized gain (loss) on investment transactions	.39	.47	.68	.03	(.26)
<b>Total from investment operations</b>	<b>.97</b>	<b>.88</b>	<b>1.13</b>	<b>.51</b>	<b>.25</b>
<i>Less distributions from:</i>					
Net investment income	—	(.15)	(.30)	(.10)	(.25)
Net realized gains on investment transactions	(.54)	(.01)	—	—	—
<b>Total distributions</b>	<b>(.54)</b>	<b>(.16)</b>	<b>(.30)</b>	<b>(.10)</b>	<b>(.25)</b>
<b>Net asset value, end of period</b>	<b>\$ 12.25</b>	<b>\$ 11.82</b>	<b>\$ 11.10</b>	<b>\$ 10.27</b>	<b>\$ 9.86</b>
Total Return (%)	8.60	7.85	11.30	5.23	2.57
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	62	62	60	21	9
Ratio of expenses before expense reductions (%)	.84	.83	.73	.66	1.14
Ratio of expenses after expense reductions (%)	.84	.83	.73	.65	1.10
Ratio of net investment income (%)	4.99	3.60	4.26	4.76	5.26
Portfolio turnover rate (%)	210	160	65	27	154

<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.

## Class B

	2004	2003 <sup>a</sup>
<b>Selected Per Share Data</b>		
<b>Net asset value, beginning of period</b>	<b>\$ 11.78</b>	<b>\$ 11.44</b>
<i>Income (loss) from investment operations:</i>		
Net investment income <sup>b</sup>	.53	.17
Net realized and unrealized gain (loss) on investment transactions	.40	.17
<b>Total from investment operations</b>	<b>.93</b>	<b>.34</b>
<i>Less distributions from:</i>		
Net realized gains on investment transactions	(.54)	—
<b>Net asset value, end of period</b>	<b>\$ 12.17</b>	<b>\$ 11.78</b>
Total Return (%)	8.27	2.97**
<b>Ratios to Average Net Assets and Supplemental Data</b>		
Net assets, end of period (\$ millions)	21	8
Ratio of expenses (%)	1.22	1.26*
Ratio of net investment income (%)	4.61	1.80*
Portfolio turnover rate (%)	210	160

<sup>a</sup> For the period from May 1, 2003 (commencement of operations of Class B shares) to December 31, 2003.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

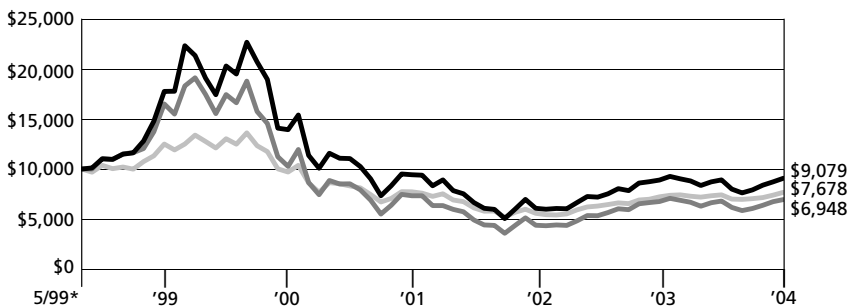
## Scudder Technology Growth Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Investments by the Portfolio in small companies present greater risk of loss than investments in larger, more established companies. Concentration of the Portfolio's investment in technology stocks may present a greater risk than investments in a more diversified Portfolio. Investments by the Portfolio in emerging technology companies present greater risk than investments in more-established technology companies. This Portfolio is non-diversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in Scudder Technology Growth Portfolio from 5/1/1999 to 12/31/2004

- 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 higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder Technology Growth Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$10,192	\$9,635	\$5,109	\$9,079
	Average annual total return	1.92%	-1.23%	-12.57%	-1.69%
Goldman Sachs Technology Index	Growth of \$10,000	\$10,291	\$9,477	\$4,207	\$6,948
	Average annual total return	2.91%	-1.77%	-15.90%	-6.22%
Russell 1000 Growth Index	Growth of \$10,000	\$10,630	\$9,946	\$6,140	\$7,678
	Average annual total return	6.30%	-1.18%	-9.29%	-4.56%
Scudder Technology Growth Portfolio		1-Year	Life of Class**		
Class B	Growth of \$10,000	\$10,148	\$14,130		
	Average annual total return	1.48%	14.81%		
Goldman Sachs Technology Index	Growth of \$10,000	\$10,291	\$14,144		
	Average annual total return	2.91%	14.81%		
Russell 1000 Growth Index	Growth of \$10,000	\$10,630	\$12,555		
	Average annual total return	6.30%	9.53%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 1999. Index returns begin April 30, 1999. Total returns would have been lower for the Life of Portfolio period for Class A shares if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.



# Information About Your Portfolio's Expenses

## Scudder Technology Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, Class B shares of the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,018.10	\$ 1,015.90
Expenses Paid per \$1,000*	\$ 4.27	\$ 6.18
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,020.97	\$ 1,019.08
Expenses Paid per \$1,000*	\$ 4.28	\$ 6.19

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — Scudder Technology Growth Portfolio	.84%	1.22%

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

## Scudder Technology Growth Portfolio

Technology was the worst-performing sector in the US stock market during 2004. The portfolio returned 1.92% for the year ended December 31, 2004 (Class A shares, unadjusted for contract charges) compared with a return of 2.91% for the Goldman Sachs Technology Index and 6.30% for the Russell 1000 Growth Index. Performance was helped by our stock selection within software and communications equipment, but weak selection in semiconductors and our decision not to hold Apple Computer — one of the best-performing stocks in the tech sector — detracted.

The portfolio is overweight in communications equipment, a fast-growing area where we favor Qualcomm, Inc. (3.4% of total net assets as of December 31, 2004) and Research in Motion Ltd. (2.2% of total net assets). We are maintaining the portfolio's overweight position in software, but we have reduced the portfolio's risk profile by taking profits in some of its higher-beta\* positions and boosting its weighting in Microsoft Corp. (8.1%). We are less enthusiastic on the prospects for hardware and equipment stocks, many of which have become commodity-oriented companies subject to pricing pressure and intense competition. The portfolio is also underweight in semiconductors — after being overweight in the group for much of the year — as well as Internet stocks, where we believe valuations are generally unattractive. Here, the portfolio owns only Yahoo!, Inc. (1.7%) and eBay, Inc. (2.3%). Within services, where the portfolio is underweight, it holds what we believe are higher-quality stocks such as Paychex, Inc. (2.2%) and Affiliated Computer Services, Inc. (1.5%). The portfolio also held an above-average weighting in cash at year-end to help ensure that we have the resources available to take advantage of any weakness in the broader market.

Overall, we are positive in the outlook for the tech sector, and the portfolio's positioning reflects this. While earnings are indeed likely to slow in 2005, the environment should be generally favorable. We estimate that tech spending will rise in the neighborhood of 8% while earnings climb 10% to 15%. We believe the profit growth within the technology sector is likely to be higher than that for the market as a whole in 2005. This would mark a continuation of the trend that has been in place for the last 50 years, during which the tech sector has grown at twice the rate of the economy overall. Despite this favorable backdrop, market expectations are modest with respect to next year. This means there is less room for disappointment and more room for upside surprises. In this basis, we have positioned the portfolio in a more aggressive fashion in order to take advantage of a potential upward move in the group over the next six to 12 months.

\* *Beta is a historical measure of a fund's sensitivity to benchmark movements. A fund with a beta great than one is more volatile than its benchmark index. A fund with a beta less than one is less volatile than its benchmark index.*

Ian Link	Anne Meisner
Lead Manager	Portfolio Manager
Deutsche Investment Management Americas Inc.	

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

Investments by the portfolio in small companies present greater risk of loss than investments in larger, more established companies. Concentration of the portfolio's investment in technology stocks may present a greater risk than investments in a more diversified portfolio. Investments by the portfolio in emerging technology companies present greater risk than investments in more established technology companies. This portfolio is non-diversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Goldman Sachs Technology Index is an unmanaged, capitalization-weighted index based on a universe of technology-related stocks. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly into an index.*

*The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## Scudder Technology Growth Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	91%	100%
Cash Equivalents	9%	—
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Information Technology	96%	94%
Consumer Discretionary	3%	5%
Health Care	1%	—
Telecommunication Services	—	1%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 133. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Technology Growth Portfolio

	Shares	Value (\$)
<b>Common Stocks 91.5%</b>		
<b>Consumer Discretionary 2.3%</b>		
<b>Internet &amp; Catalog Retail</b>		
eBay, Inc.*	49,300	5,732,604
<b>Health Care 0.9%</b>		
<b>Health Care Equipment &amp; Supplies</b>		
Waters Corp.*	48,100	2,250,599
<b>Information Technology 88.3%</b>		
<b>Communications Equipment 17.0%</b>		
Avocent Corp.*	97,000	3,930,440
Cisco Systems, Inc.*	441,600	8,522,880
Converse Technologies, Inc.*	54,800	1,339,860
Corning, Inc.*	398,100	4,685,637
LG Electronics, Inc.*	39,400	2,439,664
Motorola, Inc.	497,084	8,549,845
QUALCOMM, Inc.	198,816	8,429,798
Scientific-Atlanta, Inc.	125,000	4,126,250
		<b>42,024,374</b>
<b>Computers &amp; Peripherals 18.0%</b>		
ATI Technologies, Inc.* (d)	185,700	3,600,723
Dell, Inc.*	85,175	3,589,275
EMC Corp.*	882,300	13,119,801
Hewlett-Packard Co.	123,652	2,592,982
International Business Machines Corp.	53,700	5,293,746
Lexmark International, Inc. "A"*	51,125	4,345,625
QLogic Corp.*	87,700	3,221,221
Quanta Computer, Inc.	1,771,053	3,185,548
Research In Motion Ltd.*	65,200	5,373,784
		<b>44,322,705</b>
<b>Electronic Equipment &amp; Instruments 3.8%</b>		
Agilent Technologies, Inc.*	103,022	2,482,830
Flextronics International Ltd.*	293,800	4,060,316
Tektronix, Inc.	90,800	2,743,068
		<b>9,286,214</b>
<b>Internet Software &amp; Services 3.2%</b>		
Check Point Software Technologies Ltd.*	154,400	3,802,872
Yahoo!, Inc.*	110,900	4,178,712
		<b>7,981,584</b>
<b>IT Consulting &amp; Services 6.5%</b>		
Accenture Ltd. "A"*	163,900	4,425,300
Affiliated Computer Services, Inc. "A"*	59,500	3,581,305
Convergys Corp.*	164,800	2,470,352
Paychex, Inc.	160,008	5,453,073
		<b>15,930,030</b>

	Shares	Value (\$)
<b>Semiconductors &amp; Semiconductor Equipment 18.1%</b>		
Agere Systems, Inc. "B"*	351,100	473,985
Altera Corp.*	120,200	2,488,140
ASML Holding NV* (d)	92,737	1,475,446
Broadcom Corp. "A"*	146,658	4,734,120
Cypress Semiconductor Corp.* (d)	342,400	4,016,352
Intel Corp.	384,389	8,990,859
Linear Technology Corp.	66,940	2,594,594
Maxim Integrated Products, Inc.	81,937	3,473,309
Microchip Technology, Inc. (d)	126,100	3,361,826
National Semiconductor Corp.	338,700	6,079,665
Samsung Electronics Co., Ltd.	5,770	2,510,998
Xilinx, Inc.	153,000	4,536,450
		<b>44,735,744</b>
<b>Software 21.7%</b>		
Amdocs Ltd.*	80,600	2,115,750
BEA Systems, Inc.* (d)	499,858	4,428,742
Electronic Arts, Inc.*	24,200	1,492,656
Intuit, Inc.*	75,813	3,336,530
Mercury Interactive Corp.*	41,600	1,894,880
Microsoft Corp.	744,446	19,884,152
Oracle Corp.*	795,500	10,914,260
TIBCO Software, Inc.*	215,600	2,876,104
VERITAS Software Corp.*	224,856	6,419,640
		<b>53,362,714</b>
<b>Total Common Stocks (Cost \$187,696,941)</b>		<b>225,626,568</b>

**Securities Lending Collateral 2.3%**

Daily Assets Fund Institutional, 2.25% (c) (e) (Cost \$5,561,905)	5,561,905	5,561,905
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**Cash Equivalents 9.0%**

Scudder Cash Management QP Trust, 2.24% (b) (Cost \$22,140,384)	22,140,384	22,140,384
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	% of Net Assets	Value (\$)
<b>Total Investment Portfolio (Cost \$215,399,230) (a)</b>	102.8	<b>253,328,857</b>
<b>Other Assets and Liabilities</b>	(2.8)	<b>(6,895,317)</b>
<b>Net Assets</b>	100.0	<b>246,433,540</b>

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

## Notes to Scudder Technology Growth Portfolio

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$239,836,561. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$13,492,296. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$30,153,678 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$16,661,382.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Daily Assets Fund Institutional, an affiliated Fund, is managed by Deutsche Asset Management, Inc. The rate shown is the seven-day yield at period end.
- (d) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$5,445,750 which is 2.2% of total net assets.
- (e) Represents collateral held in connection with securities lending.

At December 31, 2004, open written options were as follows:

Written Options	Contracts	Expiration Date	Strike Price	Value (\$)
<b>Call Options</b>				
eBay, Inc.	80	1/22/2005	115.00	36,000
Mercury Interactive Corp.	416	1/22/2005	47.50	33,280
TIBCO Software, Inc.	433	2/19/2005	12.50	67,115
VERITAS Software Corp.	903	1/22/2005	30.00	54,180
<b>Put Options</b>				
Electronic Arts, Inc.	242	1/22/2005	57.50	15,730
<b>Total outstanding written options (Premiums received \$332,731)</b>				<b>206,305</b>

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$187,696,941) — including \$5,445,750 of securities loaned	\$ 225,626,568
Investment in Daily Assets Fund Institutional (cost \$5,561,905)*	5,561,905
Investment in Scudder Cash Management QP Trust (cost \$22,140,384)	22,140,384
Total investments in securities, at value (cost \$215,399,230)	253,328,857
Cash	27,131
Foreign currency, at value (cost \$104,015)	111,288
Receivable for investments sold	352,259
Dividends receivable	120,147
Interest receivable	35,459
Receivable for Portfolio shares sold	517,044
Foreign taxes recoverable	274
Other assets	7,272
<b>Total assets</b>	<b>254,499,731</b>

### Liabilities

Payable for investments purchased	1,851,702
Payable for Portfolio shares redeemed	190,668
Payable upon return of securities loaned	5,561,905
Written options, at value (premiums received \$332,731)	206,305
Accrued management fee	154,431
Other accrued expenses and payables	101,180
Total liabilities	8,066,191
<b>Net assets, at value</b>	<b>\$ 246,433,540</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	\$ 950,616
Net unrealized appreciation (depreciation) on:	
Investments	37,929,627
Written options	126,426
Foreign currency related transactions	7,714
Accumulated net realized gain (loss)	(284,804,711)
Paid-in capital	492,223,868
<b>Net assets, at value</b>	<b>\$ 246,433,540</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$230,078,244 ÷ 25,536,462 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.01</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$16,355,296 ÷ 1,832,122 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 8.93</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$42,228)	\$ 2,956,147
Interest — Scudder Cash Management QP Trust	113,602
Securities lending income, including income from Daily Assets Fund Institutional	12,349
<b>Total Income</b>	<b>3,082,098</b>
Expenses:	
Management fee	1,826,919
Custodian and accounting fees	97,218
Distribution service fees (Class B)	34,701
Record keeping fees (Class B)	18,084
Auditing	37,107
Legal	14,160
Trustees' fees and expenses	6,806
Reports to shareholders	26,613
Other	20,030
Total expenses, before expense reductions	2,081,638
Expense reductions	(2,610)
Total expenses, after expense reductions	2,079,028
<b>Net investment income (loss)</b>	<b>1,003,070</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	12,475,351
Written options	2,227,923
Foreign currency related transactions	(12,526)
	14,690,748
Net unrealized appreciation (depreciation) during the period on:	
Investments	(13,058,442)
Written options	126,426
Foreign currency related transactions	7,714
	(12,924,302)
<b>Net gain (loss) on investment transactions</b>	<b>1,766,446</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 2,769,516</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 1,003,070	\$ (1,109,123)
Net realized gain (loss)	14,690,748	(64,854,046)
Net unrealized appreciation (depreciation) on investment transactions during the period	(12,924,302)	148,935,889
Net increase (decrease) in net assets resulting from operations	2,769,516	82,972,720
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	32,575,554	51,551,950
Cost of shares redeemed	(61,621,741)	(94,728,478)
Net increase (decrease) in net assets from Class A share transactions	(29,046,187)	(43,176,528)
<b>Class B</b>		
Proceeds from shares sold	7,002,084	9,021,390
Cost of shares redeemed	(1,720,967)	(349,231)
Net increase (decrease) in net assets from Class B share transactions	5,281,117	8,672,159
<b>Increase (decrease) in net assets</b>	<b>(20,995,554)</b>	<b>48,468,351</b>
Net assets at beginning of period	267,429,094	218,960,743
Net assets at end of period (including undistributed net investment income and accumulated net investment loss of \$950,616 and \$2,800, respectively)	\$ <b>246,433,540</b>	\$ <b>267,429,094</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	29,035,542	36,318,161
Shares sold	3,753,123	7,017,960
Shares redeemed	(7,252,203)	(14,300,579)
Net increase (decrease) in Portfolio shares	(3,499,080)	(7,282,619)
Shares outstanding at end of period	<b>25,536,462</b>	<b>29,035,542</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,217,540	51,379
Shares sold	821,254	1,206,790
Shares redeemed	(206,672)	(40,629)
Net increase (decrease) in Portfolio shares	614,582	1,166,161
Shares outstanding at end of period	<b>1,832,122</b>	<b>1,217,540</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 8.84</b>	<b>\$ 6.02</b>	<b>\$ 9.36</b>	<b>\$ 13.87</b>	<b>\$ 17.77</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.04	(.04)	(.03)	.01	.04
Net realized and unrealized gain (loss) on investment transactions	.13	2.86	(3.30)	(4.50)	(3.84)
<b>Total from investment operations</b>	<b>.17</b>	<b>2.82</b>	<b>(3.33)</b>	<b>(4.49)</b>	<b>(3.80)</b>
<i>Less distributions from:</i>					
Net investment income	—	—	(.01)	(.02)	—
Net realized gains on investment transactions	—	—	—	—	(.10)
<b>Total distributions</b>	<b>—</b>	<b>—</b>	<b>(.01)</b>	<b>(.02)</b>	<b>(.10)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.01</b>	<b>\$ 8.84</b>	<b>\$ 6.02</b>	<b>\$ 9.36</b>	<b>\$ 13.87</b>
Total Return (%)	1.92	46.84	(35.52)	(32.39)	(21.57)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	230	257	219	351	270
Ratio of expenses (%)	.83	.86	.80	.81	.82
Ratio of net investment income (loss) (%)	.43	(.50)	(.37)	.12	.21
Portfolio turnover rate (%)	112	66	64	56	107

<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

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
<b>Net asset value, beginning of period</b>	<b>\$ 8.80</b>	<b>\$ 6.01</b>	<b>\$ 6.32</b>
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.01	(.07)	(.02)
Net realized and unrealized gain (loss) on investment transactions	.12	2.86	(.29)
<b>Total from investment operations</b>	<b>.13</b>	<b>2.79</b>	<b>(.31)</b>
<b>Net asset value, end of period</b>	<b>\$ 8.93</b>	<b>\$ 8.80</b>	<b>\$ 6.01</b>
Total Return (%)	1.48	46.42	(4.75)**
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	16	11	.3
Ratio of expenses before expense reductions (%)	1.22	1.25	1.06*
Ratio of expenses after expense reductions (%)	1.21	1.25	1.06*
Ratio of net investment income (loss) (%)	.05	(.89)	(.79)*
Portfolio turnover rate (%)	112	66	64

<sup>a</sup> For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized



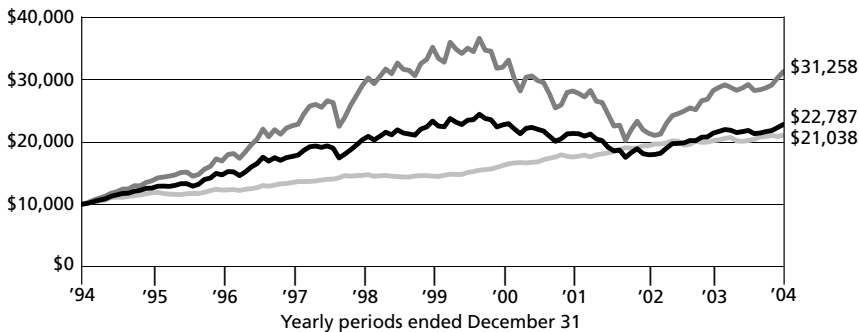
## Scudder Total Return Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. The Portfolio also invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in Scudder Total Return Portfolio from 12/31/1994 to 12/31/2004

- Scudder Total Return Portfolio — Class A
- S&P 500 Index
- Lehman Brothers Aggregate 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.

Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

Scudder Total Return Portfolio		1-Year	3-Year	5-Year	10-Year
Class A	Growth of \$10,000	\$10,664	\$10,684	\$9,769	\$22,787
	Average annual total return	6.64%	2.23%	-.47%	8.58%
S&P 500 Index	Growth of \$10,000	\$11,088	\$11,115	\$8,902	\$31,258
	Average annual total return	10.88%	3.59%	-2.30%	12.07%
Lehman Brothers Aggregate Bond Index	Growth of \$10,000	\$10,434	\$11,976	\$14,497	\$21,038
	Average annual total return	4.34%	6.19%	7.71%	7.72%
Scudder Total Return Portfolio		1-Year	Life of Class*		
Class B	Growth of \$10,000	\$10,626	\$11,977		
	Average annual total return	6.26%	7.47%		
S&P 500 Index	Growth of \$10,000	\$11,088	\$12,800		
	Average annual total return	10.88%	10.38%		
Lehman Brothers Aggregate Bond Index	Growth of \$10,000	\$10,434	\$11,539		
	Average annual total return	4.34%	5.89%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## Scudder Total Return Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,044.80	\$ 1,043.00
Expenses Paid per \$1,000*	\$ 2.97	\$ 4.91
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,022.23	\$ 1,020.33
Expenses Paid per \$1,000*	\$ 2.93	\$ 4.85

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — Scudder Total Return Portfolio	.58%	.96%

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

## Scudder Total Return Portfolio

In order to efficiently access the type of returns that Scudder Total Return Portfolio investors expect, we have broadened the investment universe for this portfolio. In the past, the portfolio's investment strategy consisted of a rather simple combination of US large-capitalization growth stocks and core US bonds. The Board approved broadening the investment universe to include US large-cap value stocks, US small-cap stocks, high-yield bonds, international bonds and emerging-market bonds. The asset-allocation mix will be determined by the portfolio management team on a monthly basis. In support, the Advanced Research and Quantitative Strategies group at Deutsche Asset Management will process the portfolio through a quantitatively based risk management model. The model will seek to manage risk, keeping it at a modest level across the underlying strategies.

Stocks and bonds both generated positive returns in 2004. In the equity market, strong corporate earnings helped small caps outperform large caps, while value outpaced growth. Bonds produced a higher return than would typically be expected given that the Federal Reserve raised interest rates from 1.00% to 2.25% during the year. Longer-term bonds outperformed shorter-term paper, while corporate issues bested Treasuries. Against this backdrop, the portfolio returned 6.64% (Class A shares, unadjusted for contract charges) for the 12-month period ended December 31, 2004. Its benchmarks, the S&P 500 index and the Lehman Brothers Aggregate Bond Index (LBAB), returned 10.88% and 4.34%, respectively, for the same period.

An overweight in energy, along with good selection within the group, was beneficial. Here, we continue to favor equipment and service companies. In fixed income, positions in corporates, international bonds and asset-backed securities added value amid an environment in which investors were thirsty for yield.

In the equity portion of the portfolio, weak stock selection and an overweight in information technology made the largest negative contribution to performance during the year. The portfolio's current positioning within technology emphasizes consistent earners over cyclical companies, reflecting our view that industry profit growth is likely to slow. We also decreased our overall weighting in technology based on this belief. Selections within financials, where the portfolio is underweight in insurance and overweight in market-sensitive companies, also detracted. High levels of consumer debt and the current rising interest rate environment threatens the performance of many financial services companies and has led us to reduce our exposure to the financial sectors. Looking ahead, we will continue to focus on higher-quality growth stocks and fundamentally sound, reasonably value fixed-income securities.

Julie M. Van Cleave            J. Christopher Gagnier  
Andrew P. Cestone            Brett Diment  
Thomas F. Sassi                Arnim S. Holzer

### *Portfolio Managers*

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

## Risk Considerations

The portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. The portfolio also invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*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.*

*Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## Scudder Total Return Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	60%	61%
Corporate Bonds	11%	10%
Collateralized Mortgage Obligations	7%	10%
Foreign Bonds — US\$ Denominated	5%	3%
US Government Backed	4%	3%
Asset Backed	3%	4%
Cash Equivalents	3%	2%
Municipal Investments	2%	2%
Commercial and Non-Agency Mortgage Backed Securities	2%	—
US Government Agency Sponsored Pass-Throughs	1%	1%
Government National Mortgage Association	1%	—
Foreign Bonds — Non US\$ Denominated	1%	—
Government Sponsored Agencies	—	4%
	<b>100%</b>	<b>100%</b>

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	19%	11%
Information Technology	19%	26%
Health Care	16%	22%
Consumer Discretionary	12%	14%
Industrials	11%	8%
Energy	9%	6%
Consumer Staples	8%	11%
Materials	4%	1%
Telecommunication Services	1%	1%
Utilities	1%	—
	<b>100%</b>	<b>100%</b>

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 142. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Total Return Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 60.0%</b>					
<b>Consumer Discretionary 7.3%</b>					
<b>Auto Components 0.0%</b>					
Tenneco Automotive, Inc.*	17,700	305,148			
<b>Automobiles 0.5%</b>					
Harley-Davidson, Inc.	43,400	2,636,550			
Monaco Coach Corp.	16,400	337,348			
		<b>2,973,898</b>			
<b>Distributors 0.0%</b>					
Handleman Co.	2,200	47,256			
<b>Hotels Restaurants &amp; Leisure 1.2%</b>					
Alliance Gaming Corp.*	28,300	390,823			
Ameristar Casinos, Inc.	7,600	327,636			
California Pizza Kitchen, Inc.*	15,200	349,600			
CEC Entertainment, Inc.*	12,100	483,637			
International Game Technology	53,300	1,832,454			
Landry's Restaurants, Inc.	13,800	401,028			
McDonald's Corp.	59,900	1,920,394			
YUM! Brands, Inc.	40,000	1,887,200			
		<b>7,592,772</b>			
<b>Household Durables 0.1%</b>					
American Woodmark Corp.	3,100	135,408			
Fortune Brands, Inc.	7,300	563,414			
		<b>698,822</b>			
<b>Internet &amp; Catalog Retail 0.3%</b>					
eBay, Inc.*	16,800	1,953,504			
J. Jill Group, Inc.*	14,900	221,861			
		<b>2,175,365</b>			
<b>Leisure Equipment &amp; Products 0.1%</b>					
Arctic Cat, Inc.	7,200	190,944			
RC2 Corp.*	11,300	368,380			
		<b>559,324</b>			
<b>Media 1.3%</b>					
aQuantive Inc.*	7,400	66,156			
Comcast Corp. "A"*	45,600	1,497,504			
McGraw-Hill Companies, Inc.	24,600	2,251,884			
Mediacom Communications Corp. "A"*	25,400	158,750			
Omnicom Group, Inc.	28,800	2,428,416			
Reader's Digest Association, Inc.	32,600	453,466			
Salem Communications Corp. "A"*	2,400	59,880			
Viacom, Inc. "B"	41,439	1,507,965			
		<b>8,424,021</b>			
<b>Multiline Retail 1.4%</b>					
Family Dollar Stores, Inc.	95,900	2,994,957			
Kirkland's, Inc.*	3,700	45,473			
Kohl's Corp.*	15,500	762,135			
May Department Stores Co.	81,600	2,399,040			
Target Corp.	68,600	3,562,398			
		<b>9,764,003</b>			
<b>Specialty Retail 2.2%</b>					
Aerpostale, Inc.*	9,500	279,585			
Bed Bath & Beyond, Inc.*	13,300	529,739			
Cato Corp. "A"	14,800	426,536			
Charlotte Russe Holding, Inc.*	23,100	233,310			
Charming Shoppes, Inc.*	33,500	313,895			
Dick's Sporting Goods, Inc.*	2,300	80,845			
GameStop Corp.*	2,400	53,664			
Home Depot, Inc.	11,500	491,510			
Limited Brands	98,500	2,267,470			
Lowe's Companies, Inc.	87,700	5,050,643			
Sherwin-Williams Co.	58,500	2,610,855			
Stage Stores, Inc.*	2,800	116,256			
Staples, Inc.	35,900	1,210,189			
Stein Mart, Inc.*	17,800	303,668			
Too, Inc.*	14,700	359,562			
Trans World Entertainment Corp.*	4,600	57,362			
				<b>14,385,089</b>	
<b>Textiles, Apparel &amp; Luxury Goods 0.2%</b>					
Cherokee, Inc.	600	21,168			
Guess?, Inc.*	21,000	263,550			
Phillips-Van Heusen Corp.	1,600	43,200			
Skechers USA, Inc. "A"*	23,200	300,672			
Wolverine World Wide, Inc.	15,300	480,726			
				<b>1,109,316</b>	
<b>Consumer Staples 5.0%</b>					
<b>Beverages 0.6%</b>					
Boston Beer Co., Inc. "A"*	4,800	102,096			
PepsiCo, Inc.	72,720	3,795,984			
				<b>3,898,080</b>	
<b>Food &amp; Staples Retailing 1.1%</b>					
Nash-Finch Co.	6,600	249,216			
Pantry, Inc.*	12,700	382,143			
Wal-Mart Stores, Inc.	89,100	4,706,262			
Walgreen Co.	49,800	1,910,826			
				<b>7,248,447</b>	
<b>Food Products 2.0%</b>					
ConAgra Foods, Inc.	99,200	2,921,440			
Dean Foods Co.*	12,700	418,465			
General Mills, Inc.	73,400	3,648,714			
Hershey Foods Corp.	21,800	1,210,772			
Kellogg Co.	29,200	1,304,072			
Lance, Inc.	21,800	414,854			
Sara Lee Corp.	120,100	2,899,214			
				<b>12,817,531</b>	
<b>Household Products 1.3%</b>					
Colgate-Palmolive Co.	25,700	1,314,812			
Hooker Furniture Corp.	8,300	188,410			
Kimberly-Clark Corp.	54,000	3,553,740			
Procter & Gamble Co.	66,300	3,651,804			
				<b>8,708,766</b>	
<b>Personal Products 0.0%</b>					
Elizabeth Arden, Inc.*	12,600	299,124			
<b>Energy 5.2%</b>					
<b>Energy Equipment &amp; Services 1.2%</b>					
Baker Hughes, Inc.	45,100	1,924,417			
Cal Dive International, Inc.*	10,400	423,800			

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

	Shares	Value (\$)		Shares	Value (\$)
Nabors Industries Ltd.*	36,800	1,887,472	Provident Bankshares Corp.	3,000	109,110
Offshore Logistics, Inc.*	1,000	32,470	Republic Bancorp, Inc. "A"	1,200	30,840
Schlumberger Ltd.	33,300	2,229,435	Republic Bancorp., Inc.	19,500	297,960
Transocean, Inc.*	21,800	924,102	Silicon Valley Bancshares*	11,400	510,948
		<b>7,421,696</b>	Southwest Bancorporation of Texas, Inc.	3,100	72,199
<b>Oil &amp; Gas 4.0%</b>			Sterling Bancshares, Inc.	16,900	241,163
BP PLC (ADR)	34,500	2,014,800	Sterling Financial Corp.*	3,700	145,262
Burlington Resources, Inc.	45,400	1,974,900	SunTrust Banks, Inc.	27,100	2,002,148
Callon Petroleum Co.*	9,800	141,708	Texas Capital Bancshares, Inc.*	2,300	49,726
ChevronTexaco Corp.	45,700	2,399,707	TierOne Corp.	3,500	86,975
Cimarex Energy Co.*	12,200	462,380	Trustmark Corp.	5,800	180,206
Comstock Resources, Inc.*	18,400	405,720	Umpqua Holdings Corp.	3,300	83,193
ConocoPhillips	44,900	3,898,667	United Community Banks, Inc.	1,000	26,930
Devon Energy Corp.	56,200	2,187,304	US Bancorp.	88,900	2,784,348
EOG Resources, Inc.	27,800	1,983,808	Wachovia Corp.	64,000	3,366,400
ExxonMobil Corp.	98,600	5,054,236	WesBanco, Inc.	3,100	99,107
Houston Exploration Co.*	8,500	478,635	Westamerica Bancorp.	6,400	373,184
Meridian Resource Corp.*	27,500	166,375	WSFS Financial Corp.	3,800	229,216
Overseas Shipholding Group, Inc.	8,200	452,640			<b>31,678,623</b>
Remington Oil & Gas Corp.*	15,500	422,375	<b>Capital Markets 1.3%</b>		
Royal Dutch Petroleum Co. (NY Shares)	45,000	2,582,100	Bear Stearns Companies, Inc.	21,400	2,189,434
Southwestern Energy Co.*	10,400	527,176	Goldman Sachs Group, Inc.	8,200	853,128
Tesoro Petroleum Corp.*	11,200	356,832	Investment Technology Group, Inc.*	8,000	160,000
Vintage Petroleum, Inc.	17,000	385,730	Lehman Brothers Holdings, Inc.	10,600	927,288
Whiting Petroleum Corp.*	14,200	429,550	Merrill Lynch & Co., Inc.	46,500	2,779,305
		<b>26,324,643</b>	Morgan Stanley	28,100	1,560,112
<b>Financials 11.6%</b>					<b>8,469,267</b>
<b>Banks 4.8%</b>			<b>Consumer Finance 0.6%</b>		
AmSouth Bancorp.	63,900	1,655,010	American Express Co.	64,800	3,652,776
BancFirst Corp.	400	31,592	<b>Diversified Financial Services 2.9%</b>		
Bank of America Corp.	173,200	8,138,668	Accredited Home Lenders Holding Co.*	8,400	417,312
Banner Corp.	4,900	152,831	ASTA Funding, Inc.	5,000	134,200
BB&T Corp.	44,700	1,879,635	Bank Mutual Corp.	3,100	37,727
Capital Bancorp., Ltd.	500	17,610	Chemical Financial Corp.	2,200	94,424
Central Pacific Financial Corp.	500	18,085	Citigroup, Inc.	184,299	8,879,526
Citizens Banking Corp.	2,700	92,745	F.N.B. Corp.	4,100	83,476
CoBiz, Inc.	1,200	24,360	Fannie Mae	32,500	2,314,325
Columbia Banking Systems, Inc.	3,100	77,469	Freddie Mac	30,400	2,240,480
Community Bank System, Inc.	2,500	70,625	JPMorgan Chase & Co.	118,300	4,614,883
CVB Financial Corp.	9,000	239,040			<b>18,816,353</b>
Dime Community Bancshares	2,200	39,402	<b>Insurance 1.3%</b>		
Downey Financial Corp.	4,500	256,500	AFLAC, Inc.	39,600	1,577,664
Fidelity Bancshares, Inc.	4,700	200,972	Allstate Corp.	48,600	2,513,592
First BanCorp.	9,300	590,643	American International Group, Inc.	56,737	3,725,919
First Community Bancorp.	2,400	102,480	American Physicians Capital, Inc.*	1,000	36,020
FirstFed Financial Corp.*	9,200	477,204	Commerce Group, Inc.	3,100	189,224
Frontier Financial Corp.	1,600	61,776	FPIC Insurance Group, Inc.*	3,200	113,216
Hanmi Financial Corp.	7,900	283,926	Navigators Group, Inc.*	1,900	57,209
Harbor Florida Bancshares, Inc.	6,600	228,426	UICI	4,700	159,330
Independent Bank Corp.	1,400	47,250	Zenith National Insurance Corp.	10,000	498,400
Integra Bank Corp.	2,200	50,842			<b>8,870,574</b>
MBT Financial Corp.	1,300	30,251	<b>Real Estate 0.7%</b>		
National City Corp.	53,500	2,008,925	American Financial Realty Trust (REIT)	6,400	103,552
National Penn Bancshares, Inc.	800	22,160	AmlI Residential Properties Trust (REIT)	4,700	150,400
Pacific Capital Bancorp.	1,100	37,389			
PNC Financial Services Group	71,300	4,095,472			
Prosperity Bancshares, Inc.	2,000	58,420			

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

	Shares	Value (\$)		Shares	Value (\$)
Bedford Property Investors, Inc. (REIT)	2,600	73,866	Closure Medical Corp.*	5,900	115,050
CarrAmerica Realty Corp. (REIT)	7,000	231,000	Haemonetics Corp.*	11,500	416,415
Colonial Properties Trust (REIT)	2,400	94,248	Hospira, Inc.*	6,450	216,075
Commercial Net Lease Realty (REIT)	7,200	148,320	Medtronic, Inc.	44,300	2,200,381
Cornerstone Realty Income Trust, Inc. (REIT)	4,900	48,902	Palomar Medical Technologies, Inc.*	5,000	130,350
Corporate Office Properties Trust (REIT)	6,700	196,645	PolyMedica Corp.	8,700	324,423
Cousins Properties, Inc. (REIT)	4,600	139,242	VISX, Inc.*	7,009	181,323
EastGroup Properties, Inc. (REIT)	1,800	68,976	Waters Corp.*	17,800	832,862
Essex Property Trust, Inc. (REIT)	2,900	243,020	Zimmer Holdings, Inc.*	36,300	2,908,356
FelCor Lodging Trust, Inc. (REIT)*	9,300	136,245			<b>15,984,546</b>
Gables Residential Trust (REIT)	5,100	182,529	<b>Health Care Providers &amp; Services 1.2%</b>		
Glenborough Realty Trust, Inc. (REIT)	3,600	76,608	Allscripts Healthcare Solutions, Inc.*	10,500	112,035
Glimcher Realty Trust (REIT)	3,200	88,672	Amedisys, Inc. "L"*	10,600	343,334
Healthcare Realty Trust, Inc. (REIT)	5,900	240,130	Centene Corp.*	13,600	385,560
Heritage Property Investment Trust (REIT)	4,700	150,823	Cerner Corp.*	6,000	319,020
Highwoods Properties, Inc. (REIT)	8,100	224,370	Chemed Corp.	6,000	402,660
Jones Lang Lasalle, Inc.*	1,000	37,410	Genesis HealthCare Corp.*	1,100	38,533
Kilroy Realty Corp. (REIT)	4,300	183,825	Healthcare Service Group, Inc.	1,800	37,512
Kramont Realty Trust (REIT)	1,000	23,400	IDX Systems Corp.*	9,800	337,708
Lexington Corporate Properties Trust (REIT)	8,400	189,672	Lifeline Systems, Inc.*	2,800	72,128
LTC Properties, Inc. (REIT)	1,300	25,883	MedCath Corp.*	8,600	211,904
Nationwide Health Properties, Inc. (REIT)	9,500	225,625	Merge Technologies, Inc.*	6,500	144,625
Newcastle Investment Corp. (REIT)	6,100	193,858	Option Care, Inc.	16,500	283,635
OMEGA Healthcare Investors, Inc. (REIT)	2,500	29,500	PDI, Inc.*	7,700	171,556
Parkway Properties, Inc. (REIT)	3,100	157,325	RehabCare Group, Inc.*	5,200	145,548
Prentiss Properties Trust (REIT)	2,600	99,320	Res-Care, Inc.*	20,500	312,010
Senior Housing Properties Trust (REIT)	9,700	183,718	SFBC International, Inc.*	7,800	308,100
Sun Communities, Inc. (REIT)	4,100	165,025	UnitedHealth Group, Inc.	47,100	4,146,213
Town & Country Trust (REIT)	1,200	33,156			<b>7,772,081</b>
Trammell Crow Co.*	3,200	57,952	<b>Pharmaceuticals 4.8%</b>		
Urstadt Biddle Properties, Inc. (REIT)	1,200	20,460	Abbott Laboratories	129,600	6,045,840
Washington Real Estate Investment Trust (REIT)	6,200	209,994	Alpharma, Inc. "A"	16,900	286,455
		<b>4,433,671</b>	Bone Care International, Inc.*	2,300	64,055
<b>Health Care 9.8%</b>			Bristol-Myers Squibb Co.	160,400	4,109,448
<b>Biotechnology 1.4%</b>			Connetics Corp.*	12,700	308,483
Amgen, Inc.*	14,100	904,515	Eli Lilly & Co.	20,800	1,180,400
Biogen Idec, Inc.*	24,900	1,658,589	First Horizon Pharmaceutical Corp.*	7,600	173,964
deCODE genetics, Inc.*	11,900	92,939	Johnson & Johnson	129,666	8,223,417
Enzon Pharmaceuticals, Inc.*	19,300	264,796	Kos Pharmaceuticals, Inc.*	5,700	214,548
Genentech, Inc.*	70,500	3,838,020	Noven Pharmaceuticals, Inc.*	13,400	228,604
Gilead Sciences, Inc.*	63,000	2,204,370	Perrigo Co.	20,300	350,581
Regeneron Pharmaceuticals, Inc.*	13,200	121,572	Pfizer, Inc.	226,475	6,089,913
Third Wave Technologies*	24,300	208,980	POZEN, Inc.*	22,100	160,667
		<b>9,293,781</b>	Rigel Pharmaceuticals, Inc.*	7,500	183,150
<b>Health Care Equipment &amp; Supplies 2.4%</b>			United Therapeutics Corp.*	8,900	401,835
Align Technology, Inc.*	19,600	210,700	USANA Health Sciences, Inc.*	1,400	47,880
Alliance Imaging, Inc.*	9,300	104,625	Valeant Pharmaceuticals International	13,600	358,360
Baxter International, Inc.	154,600	5,339,884	Wyeth	65,300	2,781,127
Biosite, Inc.*	5,100	313,854			<b>31,208,727</b>
Boston Scientific Corp.*	44,000	1,564,200	<b>Industrials 6.7%</b>		
C.R. Bard, Inc.	17,600	1,126,048	<b>Aerospace &amp; Defense 1.2%</b>		
			DRS Technologies, Inc.*	1,800	76,878
			HEICO Corp.	5,600	126,504
			Honeywell International, Inc.	117,000	4,142,970
			Teledyne Technologies, Inc.*	4,500	132,435
			United Technologies Corp.	34,000	3,513,900
					<b>7,992,687</b>

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

	Shares	Value (\$)		Shares	Value (\$)
<b>Air Freight &amp; Logistics 0.4%</b>			<b>Trading Companies &amp; Distributors 0.1%</b>		
FedEx Corp.	22,500	2,216,025	United Rentals, Inc.*	15,800	298,620
<b>Airlines 0.1%</b>			WESCO International, Inc.*	10,400	308,256
Frontier Airlines, Inc.*	19,200	219,072			<b>606,876</b>
Pinnacle Airlines Corp.*	20,500	285,770	<b>Information Technology 11.1%</b>		
		<b>504,842</b>	<b>Communications Equipment 1.3%</b>		
<b>Commercial Services &amp; Supplies 1.1%</b>			Aspect Communications Corp.*	16,400	182,696
Avery Dennison Corp.	38,400	2,302,848	Cisco Systems, Inc.*	142,900	2,757,970
Brady Corp. "A"	4,000	250,280	CommScope, Inc.*	16,200	306,180
Bright Horizons Family Solutions, Inc.*	500	32,380	Digi International, Inc.*	2,800	48,132
Coinstar, Inc.*	11,800	316,594	Nokia Oyj (ADR)	180,100	2,822,167
Duratek, Inc.*	6,700	166,897	QUALCOMM, Inc.	60,000	2,544,000
Electro Rent Corp.	1,800	25,614			<b>8,661,145</b>
Euronet Worldwide, Inc.*	10,900	283,618	<b>Computers &amp; Peripherals 2.3%</b>		
Heidrick & Struggles International, Inc.*	2,500	85,675	Dell, Inc.*	35,400	1,491,756
Navigant Consulting, Inc.*	13,500	359,100	EMC Corp.*	208,000	3,092,960
NCO Group, Inc.*	11,500	297,275	Hewlett-Packard Co.	137,700	2,887,569
NuCo2, Inc.*	13,700	304,003	Intergraph Corp.*	14,100	379,713
Pitney Bowes, Inc.	48,200	2,230,696	International Business Machines Corp.	67,700	6,673,866
Stewart Enterprises, Inc. "A"*	19,100	133,509	Komag, Inc.*	15,800	296,724
TeleTech Holdings, Inc.*	25,200	244,188	Tyler Technologies, Inc.*	10,500	87,780
Ventiv Health, Inc.*	9,800	199,136			<b>14,910,368</b>
		<b>7,231,813</b>	<b>Electronic Equipment &amp; Instruments 0.2%</b>		
<b>Construction &amp; Engineering 0.1%</b>			Agilysys, Inc.	15,600	267,384
Dycom Industries, Inc.*	12,500	381,500	BEI Technologies, Inc.	9,300	287,184
Perini Corp.*	20,100	335,469	Keithley Instruments, Inc.	3,300	65,010
		<b>716,969</b>	LeCroy Corp.*	14,900	347,766
<b>Electrical Equipment 0.5%</b>			Rofin-Sinar Technologies, Inc.*	8,600	365,070
Artesyn Technologies, Inc.*	22,700	256,510	X-Rite, Inc.	12,000	192,120
Emerson Electric Co.	37,800	2,649,780			<b>1,524,534</b>
		<b>2,906,290</b>	<b>Internet Software &amp; Services 0.2%</b>		
<b>Industrial Conglomerates 2.5%</b>			Digital River, Inc.*	5,600	233,016
3M Co.	17,800	1,460,846	DoubleClick, Inc.*	23,700	184,386
Blout International, Inc.*	2,300	40,066	EarthLink, Inc.*	20,100	231,552
General Electric Co.	328,900	12,004,850	eSPEED, Inc. "A"*	14,600	180,602
Textron, Inc.	39,700	2,929,860	F5 Networks, Inc.*	4,900	238,728
Tredegar Corp.	5,600	113,176	InfoSpace, Inc.*	3,700	175,935
		<b>16,548,798</b>	S1 Corp.*	3,500	31,710
					<b>1,275,929</b>
<b>Machinery 0.5%</b>			<b>IT Consulting &amp; Services 1.2%</b>		
Actuant Corp. "A"*	5,800	302,470	Accenture Ltd. "A"*	58,800	1,587,600
Astec Industries, Inc.*	17,500	301,175	Automatic Data Processing, Inc.	70,700	3,135,545
Caterpillar, Inc.	10,100	984,851	CSG Systems International, Inc.*	15,900	297,330
Kennametal, Inc.	10,500	522,585	eFunds Corp.*	7,200	172,872
Sauer-Danfoss, Inc.	4,600	100,326	Fiserv, Inc.*	54,300	2,182,317
Terex Corp.*	10,100	481,265	Paychex, Inc.	22,300	759,984
The Manitowoc Co., Inc.	10,600	399,090	Sapient Corp.*	18,400	145,544
Wabash National Corp.*	11,300	304,309			<b>8,281,192</b>
Wabtec Corp.	2,200	46,904	<b>Semiconductors &amp; Semiconductor Equipment 2.8%</b>		
		<b>3,442,975</b>	ADE Corp.*	10,200	190,944
<b>Marine 0.1%</b>			Applied Materials, Inc.*	142,100	2,429,910
Kirby Corp.*	11,300	501,494	Axcelis Technologies, Inc.*	33,700	273,981
<b>Road &amp; Rail 0.1%</b>			Diodes, Inc.*	11,300	255,719
Knight Transportation, Inc.	16,400	406,720	Integrated Device Technology, Inc.*	23,400	270,504
Old Dominion Freight Line, Inc.*	13,000	452,400	Intel Corp.	321,200	7,512,868
		<b>859,120</b>			

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	Shares	Value (\$)
Kulicke & Soffa Industries, Inc.*	21,200	182,744
Linear Technology Corp.	48,600	1,883,736
LTX Corp.*	24,300	186,867
Micrel, Inc.*	21,300	234,726
Microsemi Corp.*	15,900	276,024
OmniVision Technologies, Inc.*	12,400	227,540
Photronics, Inc.*	14,200	234,300
Silicon Image, Inc.*	14,900	245,254
Siliconix, Inc.*	1,600	58,384
Standard Microsystems Corp.*	11,600	206,828
Supertex, Inc.*	900	19,530
Texas Instruments, Inc.	140,400	3,456,648
		<b>18,146,507</b>

#### Software 3.1%

Adobe Systems, Inc.	8,400	527,016
Ansoft Corp.*	11,500	232,300
Aspen Technology, Inc.*	24,000	149,040
Borland Software Corp.*	24,400	284,992
Electronic Arts, Inc.*	40,700	2,510,376
Embarcadero Technologies, Inc.*	24,200	227,722
Epicor Software Corp.*	19,000	267,710
EPIQ Systems, Inc.*	14,800	216,672
FactSet Research Systems, Inc.	1,800	105,192
Internet Security Systems, Inc.*	7,800	181,350
Interwoven, Inc.*	15,200	165,376
Intuit, Inc.*	24,200	1,065,042
Kronos, Inc.*	7,300	373,249
Macrovision Corp.*	6,700	172,324
Microsoft Corp.	369,200	9,861,332
MicroStrategy, Inc.*	22	1,326
Oracle Corp.*	102,700	1,409,044
Quest Software, Inc.*	2,200	35,090
SeaChange International, Inc.*	11,900	207,536
Sonic Solutions*	14,700	329,868
SS&C Technologies, Inc.	11,000	227,150
Symantec Corp.*	57,600	1,483,776
		<b>20,033,483</b>

#### Materials 2.4%

##### Chemicals 1.2%

Air Products & Chemicals, Inc.	47,700	2,765,169
Albermarle Corp.	1,400	54,194
Compass Minerals International, Inc.	15,700	380,411
Dow Chemical Co.	28,900	1,430,839
Ecolab, Inc.	40,800	1,433,304
FMC Corp.*	9,700	468,510
Georgia Gulf Corp.	9,100	453,180
Octel Corp.	15,200	316,312
Terra Industries, Inc.*	33,200	294,816
W.R. Grace & Co.*	17,800	242,258
		<b>7,838,993</b>

##### Containers & Packaging 0.4%

Silgan Holdings, Inc.	2,100	128,016
Sonoco Products Co.	79,200	2,348,280
		<b>2,476,296</b>

#### Metals & Mining 0.7%

Alcoa, Inc.	94,700	2,975,474
Century Aluminum Co.*	12,700	333,502
Hecla Mining Co.*	34,000	198,220
Oregon Steel Mills, Inc.*	16,100	326,669
Quanex Corp.	6,800	466,276
Steel Dynamics, Inc.	7,000	265,160
		<b>4,565,301</b>

#### Paper & Forest Products 0.1%

Buckeye Technologies, Inc.*	4,600	59,846
Deltic Timber Corp.	1,600	67,920
Pope & Talbot, Inc.	8,800	150,568
Potlatch Corp.	10,700	541,206
		<b>819,540</b>

#### Telecommunication Services 0.5%

##### Diversified Telecommunication Services 0.4%

CT Communications, Inc.	9,100	111,930
General Communication, Inc. "A"*	24,900	274,896
North Pittsburgh Systems, Inc.	2,800	69,244
PTEK Holdings, Inc.*	24,300	260,253
SBC Communications, Inc.	60,700	1,564,239
Verizon Communications, Inc.	14,000	567,140
		<b>2,847,702</b>

##### Wireless Telecommunication Services 0.1%

Alamosa Holdings, Inc.*	14,200	177,074
Centennial Communications Corp.*	23,300	184,769
		<b>361,843</b>

#### Utilities 0.4%

##### Electric Utilities 0.3%

PNM Resources, Inc.	15,800	399,582
Progress Energy, Inc.	28,900	1,307,436
		<b>1,707,018</b>

##### Gas Utilities 0.0%

Southern Union Co.*	2,800	67,144
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##### Multi-Utilities 0.1%

Energen Corp.	10,200	601,290
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**Total Common Stocks (Cost \$328,259,805) 392,579,874**

#### Warrants 0.0%

MircoStrategy, Inc.*	96	9
TravelCenters of America, Inc.*	40	200
<b>Total Warrants (Cost \$200)</b>		<b>209</b>

#### Preferred Stocks 0.1%

Paxson Communications Corp. (PIK)	27	198,450
TNP Enterprises, Inc., 14.5% "D" (PIK)	530	61,480
<b>Total Preferred Stocks (Cost \$268,141)</b>		<b>259,930</b>

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	Principal Amount \$(f)	Value (\$)
<b>Convertible Bonds 0.0%</b>		
DIMON, Inc., 6.25%, 3/31/2007	70,000	65,625
HIH Capital Ltd., 144A, Series DOM, 7.5%, 9/25/2006	50,000	49,500
<b>Total Convertible Bonds (Cost \$114,979)</b>		<b>115,125</b>

	Principal Amount \$(f)	Value (\$)
<b>Corporate Bonds 11.2%</b>		
<b>Consumer Discretionary 1.9%</b>		
Adesa, Inc., 7.625%, 6/15/2012	55,000	58,025
AMC Entertainment, Inc., 8.0%, 3/1/2014	145,000	144,275
American Lawyer Media, Inc., Series B, 9.75%, 12/15/2007	170,000	171,913
Atlantic Broadband Finance LLC, 144A, 9.375%, 1/15/2014	175,000	169,312
Auburn Hills Trust, 12.375%, 5/1/2020	83,000	130,183
Bally Total Fitness Holdings Corp., 10.5%, 7/15/2011	155,000	156,163
Cablevision Systems New York Group, 144A, 6.669%** , 4/1/2009	105,000	111,300
Caesars Entertainment, Inc., 9.375%, 2/15/2007	55,000	60,638
Carrols Corp., 144A, 9.0%, 1/15/2013	50,000	51,750
Charter Communications Holdings LLC: Step-up Coupon, 0% to 5/15/2006, 11.75% to 5/15/2011	380,000	279,300
9.625%, 11/15/2009	285,000	250,087
10.25%, 9/15/2010	500,000	530,000
Cooper Standard Automotive, Inc., 144A, 8.375%, 12/15/2014	65,000	64,838
CSC Holdings, Inc., 7.875%, 12/15/2007	80,000	85,800
DaimlerChrysler NA Holdings Corp., 4.75%, 1/15/2008	600,000	612,811
Dex Media East LLC/Financial, 12.125%, 11/15/2012	568,000	692,250
DIMON, Inc., Series B, 9.625%, 10/15/2011	305,000	333,975
Dura Operating Corp.: Series B, 8.625%, 4/15/2012	45,000	46,800
Series B, 9.0%, 5/1/2009 EUR	25,000	32,282
Series D, 9.0%, 5/1/2009	90,000	89,100
EchoStar DBS Corp., 144A, 6.625%, 10/1/2014	115,000	116,438
Foot Locker, Inc., 8.5%, 1/15/2022	70,000	77,000
Friendly Ice Cream Corp., 8.375%, 6/15/2012	205,000	201,156
General Motors Corp., 8.25%, 7/15/2023	140,000	145,834
Icon Health & Fitness, Inc., 11.25%, 4/1/2012	140,000	117,600
Interep National Radio Sales, Inc., Series B, 10.0%, 7/1/2008	125,000	94,219
J Crew Intermediate LLC, Step-up Coupon, 0% to 11/15/2005, 16.0% to 5/15/2008	34,889	33,141
Jacobs Entertainment Co., 11.875%, 2/1/2009	300,000	339,000
Levi Strauss & Co.: 7.0%, 11/1/2006	130,000	136,500
12.25%, 12/15/2012	15,000	16,688
Mediacom LLC, 9.5%, 1/15/2013	295,000	296,106

	Principal Amount \$(f)	Value (\$)
<b>MGM MIRAGE:</b>		
8.375%, 2/1/2011	260,000	293,150
9.75% , 6/1/2007	40,000	44,400
Mothers Work, Inc., 11.25%, 8/1/2010	80,000	77,600
NCL Corp., 144A, 10.625%, 7/15/2014	190,000	190,000
Paxson Communications Corp., 10.75%, 7/15/2008	120,000	126,000
PEI Holding, Inc., 11.0%, 3/15/2010	170,000	198,050
Petro Stopping Centers, 9.0%, 2/15/2012	250,000	264,375
Pinnacle Entertainment, Inc., 8.75%, 10/1/2013	60,000	64,950
Premier Entertainment Biloxi LLC/Finance, 10.75%, 2/1/2012	50,000	54,625
PRIMEDIA, Inc.: 7.665%** , 5/15/2010	225,000	238,500
8.875%, 5/15/2011	145,000	153,337
Rent-Way, Inc., 11.875%, 6/15/2010	50,000	56,313
Restaurant Co., 1.0%, 5/15/2008	199,779	202,276
Schuler Homes, Inc., 10.5%, 7/15/2011	175,000	199,062
Simmons Bedding Co., 144A, Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014	165,000	100,650
Sinclair Broadcast Group, Inc.: 8.0%, 3/15/2012	155,000	164,688
8.75%, 12/15/2011	410,000	446,387
Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013	245,000	261,231
Tele-Communications, Inc. "A", 9.875%, 6/15/2022	670,000	951,119
Toys "R" Us, Inc.: 7.375%, 10/15/2018	355,000	328,375
7.875%, 4/15/2013	65,000	64,512
True Temper Sports, Inc., 8.375%, 9/15/2011	95,000	88,350
Trump Holdings & Funding, 12.625%, 3/15/2010*	120,000	129,900
TRW Automotive, Inc., 11.0%, 2/15/2013	210,000	253,050
United Auto Group, Inc., 9.625%, 3/15/2012	140,000	154,700
Venetian Casino Resort LLC, 11.0%, 6/15/2010	160,000	182,600
VICORP Restaurants, Inc., 10.5%, 4/15/2011	90,000	90,450
Virgin River Casino Corp., 144A, 9.0%, 1/15/2012	15,000	15,600
Visteon Corp.: 7.0%, 3/10/2014	190,000	181,450
8.25%, 8/1/2010	90,000	94,275
Wheeling Island Gaming, Inc., 10.125%, 12/15/2009	130,000	138,450
Williams Scotsman, Inc., 9.875%, 6/1/2007	270,000	270,000
Worldspan LP/WS Finance Corp., 9.625%, 6/15/2011	120,000	119,400
Wynn Las Vegas LLC, 144A, 6.625%, 12/1/2014	320,000	316,800
XM Satellite Radio, Inc., Step-up Coupon, 0% to 12/31/2005, 14.0% to 12/31/2009	165,000	168,300

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	Principal Amount \$(f)	Value (\$)		Principal Amount \$(f)	Value (\$)
Young Broadcasting, Inc., 8.75%, 1/15/2014	210,000	211,575	8.75%, 3/15/2032	100,000	114,875
		<u>12,538,984</u>			<u>4,928,506</u>
<b>Consumer Staples 0.2%</b>			<b>Financials 3.4%</b>		
Agrilink Foods, Inc., 11.875%, 11/1/2008	15,000	15,619	AAC Group Holding Corp., 144A, Step-up Coupon, 0% to 10/1/2008, 10.25% to 10/1/2012	130,000	87,425
Church & Dwight Co., Inc., 144A, 6.0%, 12/15/2012	85,000	86,487	Affinia Group, Inc., 144A, 9.0%, 11/30/2014	235,000	244,987
Duane Reade, Inc.:			Ahold Finance USA, Inc., 6.25%, 5/1/2009	105,000	109,200
144A, 1.0%** , 12/15/2010	70,000	71,050	American General Finance Corp., Series H, 4.0%, 3/15/2011	1,774,000	1,720,434
144A, 9.75%, 8/1/2011	175,000	159,250	AmeriCredit Corp., 9.25%, 5/1/2009	235,000	252,037
North Atlantic Holding, Inc., Step-up Coupon, 0% to 3/1/2008, 12.25% to 3/1/2014	70,000	28,700	BF Saul (REIT), 7.5%, 3/1/2014	145,000	149,350
Pierre Foods, Inc., 144A, 9.875%, 7/15/2012	35,000	36,225	Capital One Bank, 4.875%, 5/15/2008	70,000	71,891
Pinnacle Foods Holding Corp., 144A, 8.25%, 12/1/2013	195,000	185,737	Dow Jones CDX:		
Prestige Brands, Inc., 144A, 9.25%, 4/15/2012	15,000	15,938	144A, Series 3-1, 7.75%, 12/29/2009	955,000	981,859
Revlon Consumer Products Corp., 9.0%, 11/1/2006	160,000	158,400	144A, Series 3-3, 8.0%, 12/29/2009	2,065,000	2,117,916
Rite Aid Corp., 11.25%, 7/1/2008	30,000	32,550	E*TRADE Financial Corp., 144A, 8.0%, 6/15/2011	250,000	268,750
Standard Commercial Corp., 8.0%, 4/15/2012	80,000	82,200	Farmers Insurance Exchange, 144A, 8.625%, 5/1/2024	255,000	300,788
Swift & Co., 12.5%, 1/1/2010	150,000	169,500	FINOVA Group, Inc., 7.5%, 11/15/2009	1,390,650	681,418
Wornick Co., 10.875%, 7/15/2011	65,000	70,525	Ford Motor Credit Co.:		
		<u>1,112,181</u>	5.8%, 1/12/2009	792,000	809,536
<b>Energy 0.7%</b>			6.875%, 2/1/2006	2,293,000	2,362,249
Avista Corp., 9.75%, 6/1/2008	115,000	133,338	General Motors Acceptance Corp.:		
CenterPoint Energy Resources Corp., Series B, 7.875%, 4/1/2013	345,000	410,064	6.75%, 1/15/2006	3,910,000	4,011,191
Chesapeake Energy Corp.:			6.875%, 9/15/2011	305,000	312,562
6.875%, 1/15/2016	100,000	104,750	Goldman Sachs Group, Inc., 4.75%, 7/15/2013	745,000	737,204
9.0%, 8/15/2012	140,000	159,950	HSBC Bank USA, 5.875%, 11/1/2034	550,000	556,929
CITGO Petroleum Corp., 144A, 6.0%, 10/15/2011	60,000	59,700	JPMorgan Chase & Co., 5.125%, 9/15/2014	570,000	573,739
Dynegy Holdings, Inc.:			LNR Property Corp., 7.625%, 7/15/2013	75,000	85,125
6.875%, 4/1/2011	15,000	14,438	Morgan Stanley, 4.0%, 1/15/2010	676,000	668,321
7.125%, 5/15/2018	215,000	191,619	Poster Financial Group, Inc., 8.75%, 12/1/2011	160,000	164,400
7.625%, 10/15/2026	55,000	47,781	PXRE Capital Trust I, 8.85%, 2/1/2027	140,000	140,000
144A, 9.875%, 7/15/2010	185,000	206,737	Qwest Capital Funding, Inc., 6.5%, 11/15/2018	150,000	124,500
Edison Mission Energy, 7.73%, 6/15/2009	410,000	440,750	R.H. Donnelly Finance Corp., 10.875%, 12/15/2012	65,000	77,188
El Paso Production Holding Corp., 7.75%, 6/1/2013	175,000	183,312	Radnor Holdings Corp., 11.0%, 3/15/2010	70,000	60,025
Enterprise Products Operating LP, 7.5%, 2/1/2011	793,000	899,099	RAM Holdings Ltd., 144A, 6.875%, 4/1/2024	1,500,000	1,473,135
Mission Resources Corp., 9.875%, 4/1/2011	155,000	165,463	Republic New York Corp., 5.875%, 10/15/2008	985,000	1,048,414
Newpark Resources, Inc., Series B, 8.625%, 12/15/2007	195,000	197,925	Thornburg Mortgage, Inc., 8.0%, 5/15/2013	45,000	47,813
NGC Corp. Capital Trust, 8.316%, 6/1/2027	100,000	84,875	TIG Capital Holdings Trust, 144A, 8.597%, 1/15/2027	185,000	162,337
Pemex Project Funding Master Trust, 144A, 3.79%, 6/15/2010**	805,000	825,930	UGS Corp., 144A, 10.0%, 6/1/2012	115,000	130,813
Southern Natural Gas, 8.875%, 3/15/2010	105,000	117,600	Universal City Development, 11.75%, 4/1/2010	180,000	212,625
Stone Energy Corp.:			Universal City Florida Holding Co., 144A, 7.2%** , 5/1/2010	65,000	67,600
144A, 6.75%, 12/15/2014	90,000	89,775	Venoco, Inc., 144A, 8.75%, 12/15/2011	70,000	72,100
8.25%, 12/15/2011	215,000	232,200			
Williams Cos., Inc.:					
8.125%, 3/15/2012	215,000	248,325			

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

	Principal Amount \$(f)	Value (\$)		Principal Amount \$(f)	Value (\$)
Wells Fargo & Co., 4.2%, 1/15/2010	1,118,000	1,122,544	Evergreen International Aviation, Inc., 12.0%, 5/15/2010	40,000	30,300
		<b>22,006,405</b>	Goodman Global Holding Co., Inc., 144A, 7.875%, 12/15/2012	205,000	202,950
<b>Health Care 0.7%</b>			Interface, Inc., 10.375%, 2/1/2010	60,000	69,000
AmeriPath, Inc., 10.5%, 4/1/2013	110,000	116,875	ISP Chemco, Inc., Series B, 10.25%, 7/1/2011	230,000	259,900
AmerisourceBergen Corp., 7.25%, 11/15/2012	11,000	12,293	Kansas City Southern:		
Cinacalcet Royalty Subordinated LLC, 8.0%, 3/30/2017	145,000	145,725	7.5%, 6/15/2009	370,000	388,500
Curative Health Services, Inc., 10.75%, 5/1/2011	95,000	85,025	9.5%, 10/1/2008	100,000	113,625
Encore Medical Corp., 144A, 9.75%, 10/1/2012	85,000	85,850	Kinetek, Inc., Series D, 10.75%, 11/15/2006	260,000	254,150
Hanger Orthopedic Group, Inc., 10.375%, 2/15/2009	145,000	149,713	Laidlaw International, Inc., 10.75%, 6/15/2011	70,000	81,725
Health Care Service Corp., 144A, 7.75%, 6/15/2011	2,695,000	3,153,155	Millennium America, Inc.:		
HEALTHSOUTH Corp., 10.75%, 10/1/2008	230,000	242,650	7.625%, 11/15/2026	270,000	265,950
IDI Acquisition Corp., 144A, 10.75%, 12/15/2011	50,000	51,250	9.25%, 6/15/2008	190,000	216,125
InSight Health Services Corp., Series B, 9.875%, 11/1/2011	105,000	106,050	Remington Arms Co., Inc., 10.5%, 2/1/2011	125,000	120,625
Interactive Health LLC, 144A, 7.75%, 4/1/2011	105,000	91,350	Sea Containers Ltd., 10.5%, 5/15/2012	45,000	47,362
National Mentor, Inc., 144A, 9.625%, 12/1/2012	20,000	21,250	Securus Technologies, Inc., 144A, 11.0%, 9/1/2011	145,000	145,000
Tenet Healthcare Corp., 6.375%, 12/1/2011	555,000	514,762	Ship Finance International Ltd., 8.5%, 12/15/2013	175,000	180,250
		<b>4,775,948</b>	SPX Corp.:		
<b>Industrials 1.0%</b>			6.25%, 6/15/2011	55,000	58,025
Aavid Thermal Technologies, Inc., 12.75%, 2/1/2007	140,000	153,300	7.5%, 1/1/2013	210,000	227,850
Allied Security Escrow Corp., 144A, 11.375%, 7/15/2011	135,000	141,075	Technical Olympic USA, Inc.:		
Allied Waste North America, Inc., Series B, 5.75%, 2/15/2011	575,000	540,500	7.5%, 3/15/2011	70,000	70,525
AMI Semiconductor, Inc., 10.75%, 2/1/2013	45,000	52,875	10.375%, 7/1/2012	160,000	179,200
Avondale Mills, Inc., 144A, 9.00%**, 7/1/2012	30,000	27,000	Texas Genco LLC, 144A, 6.875%, 12/15/2014	170,000	175,737
BAE System 2001 Asset Trust "B", Series 2001, 144A, 7.156%, 12/15/2011	309,509	335,952	The Brickman Group, Ltd., Series B, 11.75%, 12/15/2009	60,000	70,200
Browning-Ferris Industries:			United Rentals North America, Inc.:		
7.4%, 9/15/2035	70,000	61,250	6.5%, 2/15/2012	155,000	151,125
9.25%, 5/1/2021	15,000	15,975	7.0%, 2/15/2014	120,000	112,200
Cenveo Corp., 7.875%, 12/1/2013	185,000	172,050	7.75%, 11/15/2013	80,000	78,400
Clean Harbors, Inc., 144A, 11.25%, 7/15/2012	30,000	33,600	Westlake Chemical Corp., 8.75%, 7/15/2011	16,000	18,080
Collins & Aikman Floor Cover, Series B, 9.75%, 2/15/2010	260,000	279,500			<b>6,364,375</b>
Collins & Aikman Products, 10.75%, 12/31/2011	165,000	168,300	<b>Information Technology 0.1%</b>		
Continental Airlines, Inc. "B", 8.0%, 12/15/2005	140,000	136,500	Activant Solutions, Inc., 10.5%, 6/15/2011	150,000	161,250
Cornell Companies, Inc., 10.75%, 7/1/2012	185,000	197,719	Itron, Inc., 144A, 7.75%, 5/15/2012	105,000	106,837
Corrections Corp. of America, 9.875%, 5/1/2009	150,000	166,500	Lucent Technologies, Inc., 6.45%, 3/15/2029	425,000	384,625
Dana Corp., 7.0%, 3/1/2029	210,000	209,475	Spheris, Inc., 144A, 11.0%, 12/15/2012	85,000	87,125
Eagle-Picher Industries, Inc., 9.75%, 9/1/2013	30,000	30,000			<b>739,837</b>
Erico International Corp., 8.875%, 3/1/2012	120,000	126,000	<b>Materials 0.9%</b>		
			Aqua Chemical, Inc., 11.25%, 7/1/2008	155,000	124,000
			ARCO Chemical Co., 9.8%, 2/1/2020	685,000	780,900
			Associated Materials, Inc., Step-up Coupon, 0% to 3/01/2009, 11.25% to 3/01/2014	375,000	270,000
			Caraustar Industries, Inc., 9.875%, 4/1/2011	140,000	151,900
			Constar International, Inc., 11.0%, 12/1/2012	170,000	176,375

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

	Principal Amount \$(f)	Value (\$)		Principal Amount \$(f)	Value (\$)
Dayton Superior Corp.:			Insight Midwest LP, 9.75%, 10/1/2009	35,000	36,663
10.75%, 9/15/2008	145,000	155,150	IWO Escrow Co., 144A, 6.32%**, 1/15/2012	15,000	15,113
13.0%, 6/15/2009	325,000	338,000	LCI International, Inc., 7.25%, 6/15/2007	220,000	213,950
Georgia-Pacific Corp.:			Level 3 Financing, Inc., 144A, 10.75%, 10/15/2011	85,000	76,925
8.0%, 1/15/2024	365,000	423,400	MCI, Inc., 8.735%, 5/1/2014	560,000	602,000
9.375%, 2/1/2013	185,000	215,525	Nextel Communications, Inc., 5.95%, 3/15/2014	105,000	108,675
Hercules, Inc.:			Nextel Partners, Inc., 8.125%, 7/1/2011	130,000	144,300
6.75%, 10/15/2029	115,000	118,738	Northern Telecom Capital, 7.875%, 6/15/2026	60,000	59,400
11.125%, 11/15/2007	85,000	101,150	PanAmSat Corp., 144A, 9.0%, 8/15/2014	300,000	334,875
Huntsman Advanced Materials, 144A, 11.0%, 7/15/2010	100,000	119,000	Qwest Corp.:		
Huntsman International LLC:			7.25%, 9/15/2025	480,000	466,800
144A, 7.375%, 1/1/2015	50,000	50,125	144A, 7.875%, 9/1/2011	180,000	195,300
144A, 7.5%, 1/1/2015	30,000	40,777	Qwest Services Corp.:		
Huntsman LLC, 11.625%, 10/15/2010	200,000	236,500	144A, 14.0%, 12/15/2010	70,000	84,175
IMC Global, Inc., 10.875%, 8/1/2013	35,000	43,750	144A, 14.5%, 12/15/2014	430,000	543,950
Intermet Corp., 9.75%, 6/15/2009*	55,000	26,950	Rural Cellular Corp., 9.875%, 2/1/2010	120,000	122,100
International Steel Group, Inc., 6.5%, 4/15/2014	295,000	316,387	SBA Telecom, Inc., Step-up Coupon, 0% to 12/15/2007, 9.75% to 12/15/2011	55,000	46,338
MMI Products, Inc., Series B, 11.25%, 4/15/2007	130,000	131,950	Triton PCS, Inc., 8.5%, 6/1/2013	35,000	33,775
Neenah Corp., 144A, 11.0%, 9/30/2010	250,000	276,250	Ubiquitel Operating Co., 9.875%, 3/1/2011	25,000	28,063
Omnova Solutions, Inc., 11.25%, 6/1/2010	210,000	236,250	US Unwired, Inc., Series B, 10.0%, 6/15/2012	170,000	191,675
Owens-Brockway Glass Container, 8.25%, 5/15/2013	55,000	60,500	Western Wireless Corp., 9.25%, 7/15/2013	30,000	32,625
Oxford Automotive, Inc., 144A, 12.0%, 10/15/2010*	30,000	18,900			<b>6,618,704</b>
Pliant Corp.:			<b>Utilities 1.3%</b>		
Step-up Coupon, 0.0% to 12/15/2006, 11.125% to 6/15/2009	25,000	23,094	AES Corp., 144A, 8.75%, 5/15/2013	35,000	39,769
11.125%, 9/1/2009	180,000	196,200	Allegheny Energy Supply Co. LLC, 144A, 8.25%, 4/15/2012	75,000	83,813
Portola Packaging, Inc., 8.25%, 2/1/2012	120,000	94,800	Calpine Corp.:		
Rockwood Specialties Group, Inc., 144A, 7.625%, 11/15/2014	220,000	307,632	8.25%, 8/15/2005	144,000	145,440
Sheffield Steel Corp., 144A, 11.375%, 8/15/2011	85,000	87,550	144A, 8.5%, 7/15/2010	215,000	184,362
TriMas Corp., 9.875%, 6/15/2012	385,000	408,100	CMS Energy Corp., 8.5%, 4/15/2011	20,000	22,725
United States Steel LLC:			Consumers Energy Co.:		
9.75%, 5/15/2010	133,000	151,620	Series F, 4.0%, 5/15/2010	1,245,000	1,222,849
10.75%, 8/1/2008	60,000	70,650	144A, 5.0%, 2/15/2012	975,000	992,519
		<b>5,752,123</b>	DPL, Inc., 6.875%, 9/1/2011	280,000	305,797
<b>Telecommunication Services 1.0%</b>			Midwest Generation LLC, 8.75%, 5/1/2034	80,000	90,800
American Cellular Corp., Series B, 10.0%, 8/1/2011	505,000	433,037	NorthWestern Corp., 144A, 5.875%, 11/1/2014	55,000	56,263
American Tower Corp., 144A, 7.125%, 10/15/2012	85,000	86,913	NRG Energy, Inc., 144A, 8.0%, 12/15/2013	525,000	572,250
AT&T Corp.:			Pedernales Electric Cooperative, Series 02-A, 144A, 6.202%, 11/15/2032	1,050,000	1,129,674
9.05%, 11/15/2011	175,000	201,469	Progress Energy, Inc., 6.75%, 3/1/2006	1,275,000	1,323,011
9.75%, 11/15/2031	170,000	202,937	PSE&G Energy Holdings LLC:		
Bell Atlantic New Jersey, Inc., Series A, 5.875%, 1/17/2012	825,000	876,534	8.5%, 6/15/2011	155,000	176,894
BellSouth Corp., 5.2%, 9/15/2014	610,000	621,725	10.0%, 10/1/2009	165,000	195,112
Cincinnati Bell, Inc., 8.375%, 1/15/2014	580,000	587,250	TNP Enterprises, Inc., Series B, 10.25%, 4/1/2010	85,000	90,738
Dobson Cellular Systems, Inc., 144A, 6.96%**, 11/1/2011	35,000	36,225			
Dobson Communications Corp., 8.875%, 10/1/2013	165,000	115,912			
GCI, Inc., 7.25%, 2/15/2014	120,000	120,000			

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	Principal Amount \$(f)	Value (\$)
Xcel Energy, Inc., 7.0%, 12/1/2010	1,780,000	2,006,469
		<b>8,638,485</b>
<b>Total Corporate Bonds (Cost \$72,042,402)</b>		<b>73,475,548</b>

### Foreign Bonds — US\$ Denominated 5.3%

#### Consumer Discretionary 0.2%

Advertising Directory Solutions, Inc., 144A, 9.25%, 11/15/2012	110,000	115,500
Jafra Cosmetics International, Inc., 10.75%, 5/15/2011	235,000	265,550
Kabel Deutschland GmbH, 144A, 10.625%, 7/1/2014	245,000	281,750
Shaw Communications, Inc.:		
7.25%, 4/6/2011	60,000	66,150
8.25%, 4/11/2010	415,000	472,062
Vicap SA, 11.375%, 5/15/2007	25,000	25,313
Vitro Envases Norteamerica SA, 144A, 10.75%, 7/23/2011	85,000	88,188
Vitro SA de CV, Series A, 144A, 11.75%, 11/1/2013	200,000	193,500
		<b>1,508,013</b>

#### Consumer Staples 0.1%

Burns Philip Capital Property Ltd., 10.75%, 2/15/2011	140,000	157,500
Fage Dairy Industry SA, 9.0%, 2/1/2007	230,000	231,150
Grupo Cosan SA, 144A, 9.0%, 11/1/2009	50,000	52,250
		<b>440,900</b>

#### Energy 0.3%

Gazprom OAO, 144A, 9.625%, 3/1/2013	300,000	354,000
Luscar Coal Ltd., 9.75%, 10/15/2011	105,000	119,175
Petroleos Mexicanos, Series P, 9.5%, 9/15/2027	450,000	567,000
Petroleum Geo-Services ASA, 10.0%, 11/5/2010	624,002	711,362
Secunda International Ltd., 144A, 9.76%**, 9/1/2012	140,000	137,200
		<b>1,888,737</b>

#### Financials 1.9%

Arcel Finance Ltd., 144A, 5.984%, 2/1/2009	954,930	986,261
Conproca SA de CV, 12.0%, 6/16/2010	100,000	126,000
Deutsche Telekom International Finance BV:		
8.5%, 6/15/2010	240,000	285,930
8.75%, 6/15/2030	1,149,000	1,517,206
Eircom Funding, 8.25%, 8/15/2013	155,000	171,275
Endurance Specialty Holdings Ltd., 7.0%, 7/15/2034	195,000	200,791
Mantis Reef Ltd., 144A, 4.692%, 11/14/2008	1,115,000	1,118,255
Mizuho Financial Group, 8.375%, 12/29/2049	1,865,000	2,043,853
New ASAT (Finance) Ltd., 144A, 9.25%, 2/1/2011	175,000	158,813
QBE Insurance Group Ltd., 144A, 5.647%**, 7/1/2023	1,155,000	1,134,412

	Principal Amount \$(f)	Value (\$)
Royal Bank of Scotland Group PLC, Series 3, 7.816%, 11/29/2049	1,045,000	1,086,640
Westfield Capital Corp., 144A, 4.375%, 11/15/2010	3,475,000	3,436,987
		<b>12,266,423</b>

#### Health Care 0.0%

Biovail Corp., 7.875%, 4/1/2010	110,000	113,850
Elan Financial PLC, 144A, 7.75%, 11/15/2011	30,000	31,950
		<b>145,800</b>

#### Industrials 0.3%

CP Ships Ltd., 10.375%, 7/15/2012	170,000	196,137
Grupo Transportacion Ferroviaria Mexicana SA de CV:		
10.25%, 6/15/2007	235,000	250,275
11.75%, 6/15/2009	85,000	86,594
12.5%, 6/15/2012	98,000	114,415
LeGrand SA, 8.5%, 2/15/2025	130,000	153,400
Stena AB:		
144A, 7.0%, 12/1/2016	55,000	54,450
9.625%, 12/1/2012	95,000	107,350
Tyco International Group SA:		
6.875%, 1/15/2029	481,000	550,991
7.0%, 6/15/2028	484,000	562,716
		<b>2,076,328</b>

#### Information Technology 0.1%

Flextronics International Ltd., 144A, 6.25%, 11/15/2014	190,000	188,100
Magnachip Semiconductor SA:		
144A, 6.875%, 12/15/2011	70,000	72,100
144A, 8.0%, 12/15/2014	65,000	67,763
		<b>327,963</b>

#### Materials 1.0%

Alosa Finance SA, 144A, 8.875%, 11/17/2014	125,000	128,438
Avecia Group PLC, 11.0%, 7/1/2009	385,000	396,550
Cascades, Inc.:		
7.25%, 2/15/2013	225,000	238,500
144A, 7.25%, 2/15/2013	10,000	10,600
Celulosa Arauco y Constitucion SA, 7.75%, 9/13/2011	435,000	504,480
Citigroup (JSC Severstal), 144A, 9.25%, 4/19/2014	200,000	199,000
Citigroup Global (Severstal), 8.625%, 2/24/2009	24,000	24,098
Crown Euro Holdings SA, 10.875%, 3/1/2013	125,000	147,812
ISPAT Inland ULC, 9.75%, 4/1/2014	150,000	185,250
Rhodia SA, 8.875%, 6/1/2011	150,000	151,125
Sappi Papier Holding AG, 144A, 6.75%, 6/15/2012	1,735,000	1,927,774
Sino-Forest Corp., 144A, 9.125%, 8/17/2011	85,000	92,863
Sociedad Concesionaria Autopista Central, 144A, 6.223%, 12/15/2026	2,015,000	2,114,460
Tembec Industries, Inc., 8.5%, 2/1/2011	620,000	623,100
		<b>6,744,050</b>

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	Principal Amount (\$)(f)	Value (\$)
<b>Sovereign Bonds 0.9%</b>		
Dominican Republic, 9.04%, 1/23/2013	100,000	83,750
Federative Republic of Brazil: 8.875%, 10/14/2019	215,000	226,610
9.25%, 10/22/2010	280,000	313,040
11.0%, 8/17/2040	310,000	367,815
Government of Ukraine, 7.65%, 6/11/2013	300,000	320,400
Republic of Argentina: Series BGLO, 8.375%, 12/20/2049*	595,000	193,375
11.75%, 4/7/2009*	515,000	175,100
11.75%, 6/15/2015*	475,000	160,312
Republic of Bulgaria, 8.25%, 1/15/2015	300,000	377,220
Republic of Colombia: 10.75%, 1/15/2013	50,000	59,750
11.75%, 2/25/2020	40,000	51,400
Republic of Ecuador, Step-up Coupon 8.0% to 8/15/2005, 9.0% to 8/15/2006, 10.0% to 8/15/2030	170,000	146,625
Republic of Philippines, 9.375%, 1/18/2017	270,000	280,463
Republic of Turkey: 7.25%, 3/15/2015	135,000	138,712
9.0%, 6/30/2011	20,000	22,850
9.5%, 1/15/2014	45,000	53,100
11.75%, 6/15/2010	300,000	376,500
11.875%, 1/15/2030	260,000	374,400
Republic of Venezuela: 9.25%, 9/15/2027	140,000	147,700
10.75%, 9/19/2013	270,000	323,325
Russian Federation: Step-up Coupon, 5.0% to 3/31/2007, 7.5% to 3/31/2030	400,000	413,760
11.0%, 7/24/2018	230,000	321,586
Russian Ministry of Finance, Series VII, 3.0%, 5/14/2011	60,000	50,598
United Mexican States: Series A, 6.75%, 9/27/2034	375,000	370,312
8.375%, 1/14/2011	125,000	146,813
11.375%, 9/15/2016	270,000	398,520
	<b>5,894,036</b>	
<b>Telecommunication Services 0.5%</b>		
Alestra SA de RL de CV, 8.0%, 6/30/2010	35,000	29,663
America Movil SA de CV, 144A, 5.75%, 1/15/2015	790,000	788,198
Axtel SA, 11.0%, 12/15/2013	200,000	215,500
Embratel, Series B, 11.0%, 12/15/2008	145,000	165,300
Esprit Telecom Group PLC, 11.5%, 12/15/2007*	630,000	63
Global Crossing UK Finance, 144A, 10.75%, 12/15/2014	160,000	158,000
Inmarsat Finance PLC, 7.625%, 6/30/2012	160,000	166,400
Innova S. de R.L., 9.375%, 9/19/2013	100,000	113,750
INTELSAT, 6.5%, 11/1/2013	200,000	182,000
Millicom International Cellular SA, 144A, 10.0%, 12/1/2013	315,000	329,569
Mobifon Holdings BV, 12.5% , 7/31/2010	65,000	77,106

	Principal Amount (\$)(f)	Value (\$)
Mobile Telesystems Financial, 144A, 8.375%, 10/14/2010	110,000	112,200
Nortel Networks Corp., 6.875%, 9/1/2023	260,000	244,400
Nortel Networks Ltd., 6.125%, 2/15/2006	580,000	590,150
Rogers Wireless Communications, Inc., 6.375%, 3/1/2014	115,000	113,850
		<b>3,286,149</b>
<b>Utilities 0.0%</b>		
Calpine Canada Energy Finance, 8.5%, 5/1/2008	345,000	282,900
<b>Total Foreign Bonds — US\$ Denominated</b> (Cost \$34,707,820)		<b>34,861,299</b>

### Foreign Bonds — Non US\$ Denominated 0.7%

<b>Consumer Discretionary 0.0%</b>		
Victoria Acquisition III BV, 144A, 7.875%, 10/1/2014	EUR 80,000	109,284
<b>Industrials 0.1%</b>		
Grohe Holdings GmbH, 144A, 8.625%, 10/1/2014	EUR 185,000	269,063
<b>Materials 0.0%</b>		
Rhodia SA, 9.25%, 6/1/2011	EUR 115,000	159,049
<b>Sovereign Bonds 0.6%</b>		
Mexican Bonds:		
Series M-20, 8.0%, 12/7/2023	MXN 2,750,000	192,675
Series MI-10, 8.0%, 12/19/2013	MXN 44,797,000	3,579,500
Republic of Argentina:		
Series FEB, 11.0%, 2/26/2008*	EUR 80,000	31,806
Step-up Coupon, 8.25% to 7/16/2006, 9.0% to 7/6/2010*	EUR 180,000	71,565
Republic of Colombia, 11.75%, 3/1/2010	COP 131,000,000	57,081
Republic of Romania, 5.75%, 7/2/2010	EUR 110,000	163,318
		<b>4,095,945</b>
<b>Total Foreign Bonds — Non US\$ Denominated</b> (Cost \$4,469,099)		<b>4,633,341</b>

### Asset Backed 2.9%

<b>Automobile Receivables 0.2%</b>		
Daimler Chrysler Auto Trust "A4", Series 2002-A, 4.49%, 10/6/2008	672,000	676,146
MMCA Automobile Trust:		
"A4", Series 2002-4, 3.05%, 11/16/2009	700,000	697,937
"B", Series 2002-1, 5.37%, 1/15/2010	327,711	331,095
		<b>1,705,178</b>

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	Principal Amount (\$)(f)	Value (\$)
<b>Home Equity Loans 2.4%</b>		
Argent NIM Trust "A", Series 2004-WN2, 144A, 4.55%, 4/25/2034	396,093	396,861
Countrywide Asset-Backed Certificates, "N1", Series 2004-2N, 144A, 5.0%, 2/25/2035	639,347	636,189
Countrywide Home Equity Loan Trust:		
Series 2004-C, 2.32%**, 1/15/2034	1,352,885	1,350,007
"2A", Series 2004-D, 2.35%**, 6/15/2029	1,651,283	1,651,282
Countrywide Home Loan:		
"A16", Series 2002-36, 5.25%, 1/25/2033	250,507	250,389
"1A6", Series 2003-1, 5.5%, 3/25/2033	352,932	353,882
Long Beach Asset Holdings Corp., "N1", Series 2004-2, 144A, 4.94%, 6/25/2034	1,640,741	1,636,639
Master Alternative Loan Trust, "5A1", Series 2005-1, 5.5%, 1/1/2019 (c)	1,290,000	1,326,886
Merrill Lynch Mortgage Investors, Inc., "A2B", Series 2004-HE2, 2.798%**, 8/25/2035	1,840,000	1,841,291
Park Place Securities NIM Trust:		
"A", Series 2004-MHQ1, 144A, 2.487%, 12/25/2034	1,293,605	1,293,605
"C", Series 2004-MHQ1, 144A, 4.458%, 12/25/2034	1,445,000	1,445,000
Park Place Securities Trust, "B", Series 2004-WHQ1, 144A, 3.483%, 9/25/2034	1,555,000	1,552,667
Residential Asset Securities Corp., "A16", Series 2000-KS1, 7.905%, 2/25/2031	1,741,772	1,814,561
		<b>15,549,259</b>
<b>Industrials 0.3%</b>		
Delta Air Lines, Inc., "G-2", Series 2002-1, 6.417%, 7/2/2012	868,000	906,126
Northwest Airlines, "G", Series 1999-3, 7.935%, 4/1/2019	804,126	880,155
		<b>1,786,281</b>
<b>Total Asset Backed (Cost \$19,104,253)</b>		<b>19,040,718</b>

#### US Government Agency Sponsored Pass-Throughs 1.0%

Federal National Mortgage Association:		
5.0% with various maturities from 6/1/2018 until 3/1/2034	3,965,751	3,965,028
6.0%, 11/1/2017	818,371	859,089
6.5% with various maturities from 5/1/2017 until 9/1/2034	1,503,946	1,579,834
8.0%, 9/1/2015	304,995	324,394
<b>Total US Government Agency Sponsored Pass-Throughs (cost \$6,728,364)</b>		<b>6,728,345</b>

#### US Government Backed 3.4%

US Treasury Bill, 1.56%**, 1/20/2005 (e)	30,000	29,975
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	Principal Amount (\$)(f)	Value (\$)
US Treasury Bond:		
6.0%, 2/15/2026	6,507,000	7,453,820
7.25%, 5/15/2016	3,396,000	4,250,838
7.5%, 11/15/2016	240,000	306,703
US Treasury Note:		
3.25%, 1/15/2009	9,449,000	9,367,058
4.25%, 11/15/2013	970,000	976,101
<b>Total US Government Backed (Cost \$21,765,475)</b>		<b>22,384,495</b>

#### Commercial and Non-Agency Mortgage-Backed Securities 2.3%

Bank of America Mortgage Securities, "2A6", Series 2004-G, 4.657%**, 8/25/2034	2,275,000	2,308,576
Bank of America-First Union Commercial Mortgage, Inc., "A1", Series 2001-3, 4.89%, 4/11/2037	753,626	770,617
Citigroup Mortgage Loan Trust, Inc., "1CB2", Series 2004-NCM2, 6.75%, 8/25/2034	249,145	259,655
Countrywide Alternative Loan Trust, "1A1", Series 2004-J1, 6.0%, 2/25/2034	552,355	559,991
Countrywide Home Loans, "A5", Series 2002-27, 5.5%, 12/25/2032	631,480	631,825
First Union-Lehman Brothers Commercial Mortgage, "A3", Series 1997-C1, 7.38%, 4/18/2029	1,639,701	1,744,730
Master Adjustable Rate Mortgages Trust, "9A2", Series 2004-5, 4.88%**, 6/25/2032	1,200,000	1,203,475
Master Alternative Loan Trust:		
"3A1", Series 2004-5, 6.5%, 6/25/2034	319,168	332,234
"8A1", Series 2004-3, 7.0%, 4/25/2034	621,960	649,753
Master Asset Securitization Trust, "8A1", Series 2003-6, 5.5%, 7/25/2033	1,107,927	1,116,929
Mortgage Capital Funding, Inc., "A3", Series 1997-MC1, 7.288%, 7/20/2027	1,152,161	1,191,259
Residential Asset Securities Corp., "A1", Series 2003-KS9, 4.71%, 3/25/2033	1,845,000	1,874,116
Structured Asset Securities Corp., "2A1", Series 2003-1, 6.0%, 2/25/2018	105,819	109,787
Wachovia Bank Commercial Mortgage Trust, "A5", Series 2004-C11, 5.215%, 1/15/2041	1,097,000	1,129,422
Washington Mutual Mortgage Securities Corp.:		
"A7, Series 2004-AR9, 4.267%, 8/25/2034	1,098,000	1,098,865
"4A1", Series 2002-S7, 4.5%, 11/25/2032	204,173	204,567
<b>Total Commercial and Non-Agency Mortgage-Backed Securities (Cost \$15,222,370)</b>		<b>15,185,801</b>

#### Collateralized Mortgage Obligations 7.1%

Fannie Mae, "A1", Series 2002-93, 6.5%, 3/25/2032	479,385	497,038
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The accompanying notes are an integral part of the financial statements.



	Principal Amount \$(f)	Value (\$)
Fannie Mae Grantor Trust:		
"1A3", Series 2004-T2, 7.0%, 11/25/2043	562,651	596,233
"A2", Series 2002-T16, 7.0%, 7/25/2042	1,315,416	1,393,927
Fannie Mae Whole Loan:		
"3A2B", Series 2003-W10, 3.056%, 7/25/2037	1,250,000	1,240,246
"1A3", Series 2004-W1, 4.49%, 11/25/2043	1,195,000	1,200,508
"2A", Series 2002-W1, 7.5%, 2/25/2042	866,549	925,744
"5A", Series 2004-W2, 7.5%, 3/25/2044	1,718,056	1,839,049
Federal Home Loan Mortgage Corp.:		
"PV", Series 2726, 3.5%, 4/15/2026	1,645,000	1,640,101
"QC", Series 2694, 3.5%, 9/15/2020	1,900,000	1,888,295
"NB", Series 2750, 4.0%, 12/15/2022	1,558,000	1,555,936
"ME", Series 2691, 4.5%, 4/15/2032	3,040,000	2,908,995
"PE", Series 2727, 4.5%, 7/15/2032	1,250,000	1,191,966
"QH", Series 2694, 4.5%, 3/15/2032	2,990,000	2,880,253
"PE", Series 2777, 5.0%, 4/15/2033	2,365,000	2,348,994
"PQ", Series 2844, 5.0%, 5/15/2023	2,220,000	2,287,088
"QC", Series 2836, 5.0%, 9/15/2022	2,220,000	2,279,616
"TE", Series 2780, 5.0%, 1/15/2033	1,685,000	1,675,349
"PE", Series 2512, 5.5%, 2/15/2022	420,000	436,118
"BD", Series 2453, 6.0%, 5/15/2017	2,250,000	2,347,692
Federal National Mortgage Association:		
"NE", Series 2004-52, 4.5%, 7/25/2033	1,118,000	1,062,241
"QG", Series 2004-29, 4.5%, 12/25/2032	1,245,000	1,183,932
"WB", Series 2003-106, 4.5%, 10/25/2015	1,870,000	1,897,847
"A2", Series 2002-W10, 4.7%, 8/25/2042	13,886	13,874
"KY", Series 2002-55, 4.75%, 4/25/2028	138,093	137,873
"1A3", Series 2003-W19, 4.783%, 11/25/2033	1,175,000	1,181,965
"PD", Series 2002-31, 6.0%, 11/25/2021	6,500,000	6,721,396
"PM", Series 2001-60, 6.0%, 3/25/2030	555,004	562,179
"HM", Series 2002-36, 6.5%, 12/25/2029	111,715	113,051
FHLMC Structured Pass-Through Securities, "3A", Series T-58, 7.0%, 9/25/2043	871,147	922,327
Government National Mortgage Association, "PD", Series 2004-30, 5.0%, 2/20/2033	1,115,000	1,109,851
<b>Total Collateralized Mortgage Obligations</b> (Cost \$45,449,574)		<b>46,039,684</b>

	Principal Amount \$(f)	Value (\$)
<b>Municipal Investments 1.9%</b>		
Broward County, FL, Airport Revenue, Airport Systems Revenue, Series J-2, 6.13%, 10/1/2007 (d)	1,000,000	1,062,080
Illinois, Higher Education Revenue, Educational Facilities Authority, Series C, 7.1%, 7/1/2012 (d)	1,000,000	1,156,040
Mashantucket, CT, Special Assessment Revenue, Western Pequot Tribe Special Revenue, Series A, 144A, 6.57%, 9/1/2013 (d)	1,285,000	1,410,030
New York, General Obligation, Environmental Facilities Corp., Series B, 4.95%, 1/1/2013 (d)	1,895,000	1,933,260
Ohio, Sales & Special Tax Revenue, 7.6%, 10/1/2016 (d)	1,000,000	1,081,940
Passaic County, NJ, County General Obligation, 5.0%, 2/15/2017 (d)	1,735,000	1,727,886
Texas, American Campus Properties Student Housing Financing Ltd, 6.125%, 8/1/2023 (d)	1,040,000	1,109,857
Union County, NJ, Improvement Authority, Student Loan Revenue, 5.29%, 4/1/2018 (d)	1,185,000	1,208,807
Washington, Industrial Development Revenue, 3.5%, 10/1/2010 (d)	1,840,000	1,766,529
<b>Total Municipal Investments (Cost \$12,310,926)</b>		<b>12,456,429</b>

	Principal Amount \$(f)	Value (\$)
<b>Government National Mortgage Association 0.4%</b>		
Government National Mortgage Association:		
5.0%, 9/20/2033	1,053,108	1,054,020
6.0%, 7/20/2034	1,637,251	1,696,008
<b>Total Government National Mortgage Association</b> (Cost \$2,727,906)		<b>2,750,028</b>

	Shares	Value (\$)
<b>Other Investments 0.1%</b>		
Hercules Trust II (Bond Unit) (Cost \$398,781)	510,000	428,400

	Principal Amount \$(f)	Value (\$)
<b>Exchange Traded Fund 0.1%</b>		
Semiconductor HOLDRs Trust (Cost \$843,677)	24,200	807,312

	Principal Amount \$(f)	Value (\$)
<b>Cash Equivalents 3.2%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$21,146,078)	21,146,078	21,146,078

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

	% of Net Assets	Value (\$)
<b>Total Investment Portfolio</b> (Cost \$585,559,850) (a)	99.7	652,892,616
<b>Other Assets and Liabilities, Net</b>	0.3	1,657,614
<b>Net Assets</b>	100.0	654,550,230

### Notes to Scudder Total Return 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. The following table represents bonds that are in default.

Security	Coupon	Maturity Date	Principal Amount	Acquisition Cost	Value
Esprit Telecom Group PLC	11.5	12/15/2007	630,000 USD	\$ 640,458	\$ 63
Intermet Corp.	9.75	6/15/2009	55,000 USD	22,550	26,950
Oxford Automotive, Inc.	12	10/15/2010	30,000 USD	14,325	18,900
Republic of Argentina:					
	8.375	12/20/2049	595,000 USD	189,508	193,375
	9	7/6/2010	180,000 EUR	70,101	71,565
	11	2/26/2008	80,000 EUR	31,417	31,806
	11.75	4/7/2009	515,000 USD	170,525	175,100
	11.75	6/15/2015	475,000 USD	157,766	160,312
Trump Holdings & Funding	12.625	3/15/2010	120,000 USD	130,500	129,900
				<b>\$ 1,427,150</b>	<b>\$ 807,971</b>

\*\* Floating rate notes are securities whose yields vary with a designed market value, such as the coupon-equivalent of the US Treasury Bill rate. These securities are shown at their current rate as of December 31, 2004.

- (a) The cost for federal income tax purposes was \$592,425,338. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$60,467,278. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$68,448,883 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$7,981,605.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) When-issued of forward delivery security (see Notes to Financial Statements).
- (d) Bond is insured by one of these companies:

Insurance Coverage	As a % of Total Investment Portfolio
AMBAC AMBAC Assurance Corp.	0.5
FGIC Financial Guaranty Insurance Company	0.3
FSA Financial Security Assurance	0.7
MBIA Municipal Bond Investors Assurance	0.4

(e) At December 31, 2004, this security has been pledged to cover, in whole or part, initial margin requirements for open future contracts.

Futures	Expiration Date	Contracts	Aggregate Face Value (\$)	Value (\$)	Unrealized Depreciation (\$)
Russell 2000	3/17/2005	2	655,784	653,950	(1,834)

(f) Principal amount stated in US dollars unless otherwise noted.

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

ADR: American Depositary Receipts

PIK: Denotes that all or a portion of the income is paid in kind.

REIT: Real Estate Investment Trust

HOLDRS: Holding Company Depositary Receipts

Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal Home Loan Mortgage Corp. and 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 Abbreviations

COP	Colombian Peso
EUR	Euro
MXN	Mexican Peso

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$564,413,772)	\$ 631,746,538
Investment in Scudder Cash Management QP Trust (cost \$21,146,078)	21,146,078
<b>Total investments in securities, at value (cost \$585,559,850)</b>	<b>652,892,616</b>
Cash	39,710
Foreign currency, at value (cost \$39,896)	40,789
Receivable for investments sold	1,340,611
Dividends receivable	578,618
Interest receivable	2,976,490
Receivable for Portfolio shares sold	16,775
Unrealized appreciation on forward foreign currency exchange contracts	127,902
Receivable for daily variation margin on open futures contracts	450
Foreign taxes recoverable	2,988
Other assets	17,537
<b>Total assets</b>	<b>658,034,486</b>

### Liabilities

Payable for investments purchased	496,312
Payable for when-issued and forward delivery securities	1,332,798
Payable for Portfolio shares redeemed	984,908
Unrealized depreciation on forward foreign currency exchange contracts	227,351
Net payable on closed forward foreign currency exchange contracts	5,293
Accrued management fee	319,427
Other accrued expenses and payables	118,167
<b>Total liabilities</b>	<b>3,484,256</b>
<b>Net assets, at value</b>	<b>\$ 654,550,230</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	13,460,556
Net unrealized appreciation (depreciation) on:	
Investments	67,332,766
Futures	(1,834)
Foreign currency related transactions	(94,375)
Accumulated net realized gain (loss)	(83,333,181)
Paid-in capital	657,186,298
<b>Net assets, at value</b>	<b>\$ 654,550,230</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$621,557,263 ÷ 27,789,320 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 22.37</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$32,992,967 ÷ 1,477,597 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 22.33</b>
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## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$112)	\$ 5,902,441
Interest	12,315,633
Interest — Scudder Cash Management QP Trust	244,726
Securities lending income, including income from Daily Assets Fund Institutional	372
<b>Total Income</b>	<b>18,463,172</b>
Expenses:	
Management fee	3,670,402
Custodian fees	39,230
Distribution service fees (Class B)	66,432
Record keeping fees (Class B)	34,972
Auditing	22,235
Legal	25,057
Trustees' fees and expenses	26,175
Reports to shareholders	105,061
Other	33,337
<b>Total expenses, before expense reductions</b>	<b>4,022,901</b>
Expense reductions	(6,817)
<b>Total expenses, after expense reductions</b>	<b>4,016,084</b>
<b>Net investment income (loss)</b>	<b>14,447,088</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	39,747,609
Futures	176,115
Foreign currency related transactions	(11,382)
	39,912,342
Net unrealized appreciation (depreciation) during the period on:	
Investments	(12,074,667)
Futures	(1,834)
Foreign currency related transactions	(94,879)
	(12,171,380)
<b>Net gain (loss) on investment transactions</b>	<b>27,740,962</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 42,188,050</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 14,447,088	\$ 12,222,026
Net realized gain (loss) on investment transactions	39,912,342	(15,813,854)
Net unrealized appreciation (depreciation) on investment and foreign currency transactions during the period	(12,171,380)	112,165,816
Net increase (decrease) in net assets resulting from operations	42,188,050	108,573,988
Distributions to shareholders from:		
Net investment income		
Class A	(10,706,370)	(19,941,338)
Class B	(287,648)	(91,069)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	8,149,762	10,694,541
Reinvestment of distributions	10,706,370	19,941,338
Cost of shares redeemed	(94,301,996)	(90,416,600)
Net increase (decrease) in net assets from Class A share transactions	(75,445,864)	(59,780,721)
<b>Class B</b>		
Proceeds from shares sold	12,535,568	19,711,965
Reinvestment of distributions	287,648	91,069
Cost of shares redeemed	(2,353,690)	(1,167,522)
Net increase (decrease) in net assets from Class B share transactions	10,469,526	18,635,512
<b>Increase (decrease) in net assets</b>	<b>(33,782,306)</b>	<b>47,396,372</b>
Net assets at beginning of period	688,332,536	640,936,164
Net assets at end of period (including undistributed net investment income of \$13,460,556 and \$10,239,991, respectively)	<b>\$ 654,550,230</b>	<b>\$ 688,332,536</b>
<b>Other Information</b>		
<b>Class A</b>		
Shares outstanding at beginning of period	31,305,397	34,306,666
Shares sold	380,053	549,966
Shares issued to shareholders in reinvestment of distributions	499,597	1,101,123
Shares redeemed	(4,395,727)	(4,652,358)
Net increase (decrease) in Portfolio shares	(3,516,077)	(3,001,269)
Shares outstanding at end of period	<b>27,789,320</b>	<b>31,305,397</b>
<b>Class B</b>		
Shares outstanding at beginning of period	988,869	43,090
Shares sold	584,945	999,072
Shares issued to shareholders in reinvestment of distributions	13,398	5,023
Shares redeemed	(109,615)	(58,316)
Net increase (decrease) in Portfolio shares	488,728	945,779
Shares outstanding at end of period	<b>1,477,597</b>	<b>988,869</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001 <sup>a</sup>	2000 <sup>b</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 21.32</b>	<b>\$ 18.66</b>	<b>\$ 22.57</b>	<b>\$ 25.91</b>	<b>\$ 28.82</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>c</sup>	.47	.37	.47	.61	.74
Net realized and unrealized gain (loss) on investment transactions	.93	2.90	(3.81)	(2.20)	(1.40)
<b>Total from investment operations</b>	<b>1.40</b>	<b>3.27</b>	<b>(3.34)</b>	<b>(1.59)</b>	<b>(.66)</b>
<i>Less distributions from:</i>					
Net investment income	(.35)	(.61)	(.57)	(.80)	(.90)
Net realized gains on investment transactions	—	—	—	(.95)	(1.35)
<b>Total distributions</b>	<b>(.35)</b>	<b>(.61)</b>	<b>(.57)</b>	<b>(1.75)</b>	<b>(2.25)</b>
<b>Net asset value, end of period</b>	<b>\$ 22.37</b>	<b>\$ 21.32</b>	<b>\$ 18.66</b>	<b>\$ 22.57</b>	<b>\$ 25.91</b>
Total Return (%)	6.64	18.10	(15.17)	(6.09)	(2.63)

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	622	667	640	861	851
Ratio of expenses (%)	.59	.59	.58	.58	.61
Ratio of net investment income (loss) (%)	2.18	1.88	2.32	2.63	2.75
Portfolio turnover rate (%)	131 <sup>d</sup>	102 <sup>d</sup>	140	115	107

<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 period 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 140% and 108% for the periods ended December 31, 2004 and December 31, 2003, respectively.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
<b>Net asset value, beginning of period</b>	<b>\$ 21.28</b>	<b>\$ 18.64</b>	<b>\$ 19.46</b>
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.39	.28	.18
Net realized and unrealized gain (loss) on investment transactions	.92	2.92	(1.00)
<b>Total from investment operations</b>	<b>1.31</b>	<b>3.20</b>	<b>(.82)</b>
<i>Less distributions from:</i>			
Net investment income	(.26)	(.56)	—
<b>Net asset value, end of period</b>	<b>\$ 22.33</b>	<b>\$ 21.28</b>	<b>\$ 18.64</b>
Total Return (%)	6.26	17.66	(4.21)**

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	33	21	.8
Ratio of expenses (%)	.97	.99	.86*
Ratio of net investment income (loss) (%)	1.80	1.48	1.96*
Portfolio turnover rate (%)	131 <sup>c</sup>	102 <sup>c</sup>	140

<sup>a</sup> For the period July 1, 2002 (commencement of operations 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 140% and 108% for the periods ended December 31, 2004 and December 31, 2003, respectively.

\* Annualized

\*\* Not annualized

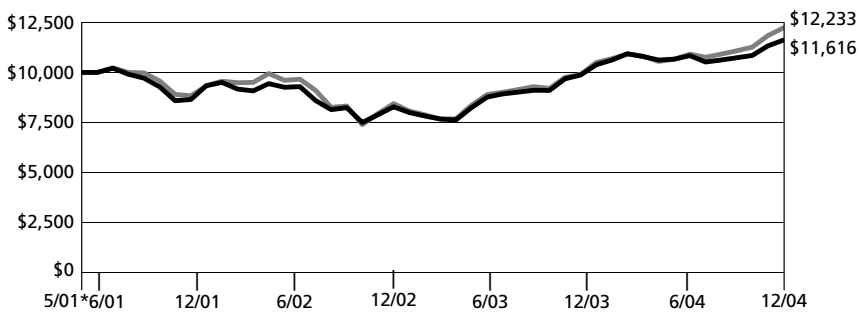
## SVS Davis Venture Value Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

The Portfolio is subject to stock market and equity risks, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in SVS Davis Venture Value Portfolio from 5/1/2001 to 12/31/2004

- SVS Davis Venture Value Portfolio — Class A
- Russell 1000 Value 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. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

SVS Davis Venture Value Portfolio	1-Year	3-Year	Life of Portfolio*
<b>Class A</b>			
Growth of \$10,000	\$11,183	\$12,227	\$11,616
Average annual total return	11.83%	6.93%	4.17%
<b>Russell 1000 Value Index</b>			
Growth of \$10,000	\$11,649	\$12,796	\$12,233
Average annual total return	16.49%	8.57%	5.65%
SVS Davis Venture Value Portfolio	1-Year	Life of Class**	
<b>Class B</b>			
Growth of \$10,000	\$11,142	\$13,505	
Average annual total return	11.42%	12.76%	
<b>Russell 1000 Value Index</b>			
Growth of \$10,000	\$11,649	\$13,438	
Average annual total return	16.49%	12.55%	

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 2001. Index returns begin April 30, 2001.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## SVS Davis Venture Value Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

<b>Actual Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,071.90	\$ 1,070.00
Expenses Paid per \$1,000*	\$ 5.32	\$ 7.33
<b>Hypothetical 5% Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,020.07	\$ 1,018.12
Expenses Paid per \$1,000*	\$ 5.18	\$ 7.15

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

<b>Annualized Expense Ratios</b>	<b>Class A</b>	<b>Class B</b>
Scudder Variable Series II — SVS Davis Venture Value Portfolio	1.02%	1.40%

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

## SVS Davis Venture Value Portfolio

For the year ended December 31, 2004, the portfolio returned 11.83% (Class A shares, unadjusted for contract charges), compared with its benchmark, the Russell 1000 Value Index, which returned 16.49%. Looking at large US stocks in 2004, value outperformed growth, with the Russell 1000 Value Index beating its counterpart 16.49% to 6.30%. This trend benefited the portfolio with its value focus.

Important contributors to and detractors from the portfolio's performance relative to the S&P 500 index over the course of the year include:

- All of the portfolio's consumer staples holdings performed well, including Altria Group, Inc. and Costco Wholesale Corp.
- Whereas in 2003 the portfolio's large financial services holdings were the most important contributors to strong performance, in 2004 the portfolio's financial service holdings trailed the S&P 500 by a small margin. Although American Express Co., CenterPoint Properties Corp., Golden West Financial Corp. and Loews Corp. turned in strong performances, other financial holdings turned in weaker performances, including Fifth Third Bancorp, Transatlantic Holdings, Inc. and Marsh & McLennan Companies, Inc. (down since being purchased in June).
- In general, information technology companies underperformed the broader market in 2004. The portfolio benefited by having only limited exposure to information technology companies.
- Other positive contributors to performance included Tyco International Ltd., an industrials company, and ConocoPhillips, an energy company. Other notable detractors from performance included Rentokil Initial PLC, an industrial company, down since being acquired in January, and health care companies Pfizer (no longer held) and Eli Lilly & Co.

Christopher C. Davis

Kenneth Charles Feinberg

Co-Managers

Davis Selected Advisers, L.P., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio is subject to stock market and equity risks, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*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. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly into an 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 all distributions and do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

*In this report Davis Selected Advisers 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.*



# Portfolio Summary

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## SVS Davis Venture Value Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	94%	93%
Cash Equivalents	6%	7%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	50%	55%
Consumer Staples	12%	13%
Industrials	9%	8%
Energy	9%	7%
Consumer Discretionary	7%	4%
Materials	5%	5%
Health Care	4%	5%
Information Technology	3%	3%
Telecommunication Services	1%	—
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 163. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Davis Venture Value Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 94.0%</b>					
<b>Consumer Discretionary 7.0%</b>					
<b>Household Durables 0.0%</b>					
Hunter Douglas NV	900	48,016			
<b>Internet &amp; Catalog Retail 0.6%</b>					
IAC/InterActiveCorp.* (d)	67,800	1,872,636			
<b>Media 5.6%</b>					
Comcast Corp. "A"*	361,200	11,861,808			
Gannett Co., Inc.	21,000	1,715,700			
Lagardere S.C.A.	54,700	3,948,036			
WPP Group PLC (ADR) (d)	20,700	1,131,255			
		<b>18,656,799</b>			
<b>Specialty Retail 0.8%</b>					
AutoZone, Inc.*	31,400	2,867,134			
<b>Consumer Staples 11.7%</b>					
<b>Beverages 2.3%</b>					
Diageo PLC (ADR)	83,300	4,821,404			
Heineken Holding NV "A"	95,600	2,891,260			
		<b>7,712,664</b>			
<b>Food &amp; Staples Retailing 3.2%</b>					
Costco Wholesale Corp.	216,700	10,490,447			
<b>Food Products 0.9%</b>					
Hershey Foods Corp.	55,600	3,088,024			
<b>Tobacco 5.3%</b>					
Altria Group, Inc.	290,600	17,755,660			
<b>Energy 8.4%</b>					
<b>Energy Equipment &amp; Services 0.7%</b>					
Transocean, Inc.*	53,600	2,272,104			
<b>Oil &amp; Gas 7.7%</b>					
ConocoPhillips	88,660	7,698,348			
Devon Energy Corp.	165,600	6,445,152			
EOG Resources, Inc.	70,400	5,023,744			
Occidental Petroleum Corp.	116,300	6,787,268			
		<b>25,954,512</b>			
<b>Financials 47.1%</b>					
<b>Banks 12.1%</b>					
Fifth Third Bancorp. (d)	86,500	4,089,720			
Golden West Financial Corp.	153,800	9,446,396			
HSBC Holdings PLC	631,210	10,652,259			
Lloyds TSB Group PLC (ADR) (d)	77,800	2,862,262			
Takefuji Corp.	37,900	2,563,160			
Wells Fargo & Co.	172,600	10,727,090			
		<b>40,340,887</b>			
<b>Capital Markets 1.0%</b>					
Morgan Stanley	47,500	2,637,200			
State Street Corp.	15,500	761,360			
		<b>3,398,560</b>			
<b>Consumer Finance 7.3%</b>					
American Express Co.	407,100	22,948,226			
Providian Financial Corp.*	91,500	1,507,005			
		<b>24,455,231</b>			
<b>Diversified Financial Services 7.9%</b>					
Citigroup, Inc.	216,700	10,440,606			
JPMorgan Chase & Co.	269,484	10,512,571			
Moody's Corp.	48,200	4,186,170			
Principal Financial Group, Inc.	30,300	1,240,482			
		<b>26,379,829</b>			
<b>Insurance 17.1%</b>					
American International Group, Inc.	228,700	15,018,729			
Aon Corp. (d)	96,800	2,309,648			
Berkshire Hathaway, Inc. "B"*	5,005	14,694,680			
Chubb Corp.	13,100	1,007,390			
Loews Corp.	89,100	6,263,730			
Markel Corp.*	900	327,600			
Marsh & McLennan Companies, Inc.	107,900	3,549,910			
Progressive Corp.	104,300	8,848,812			
Sun Life Financial, Inc. (d)	18,200	610,428			
Transatlantic Holdings, Inc.	71,437	4,416,950			
		<b>57,047,877</b>			
<b>Real Estate 1.7%</b>					
CenterPoint Properties Corp. (REIT)	121,600	5,823,424			
<b>Health Care 4.0%</b>					
<b>Health Care Providers &amp; Services 2.6%</b>					
Cardinal Health, Inc.	75,500	4,390,325			
HCA, Inc.	109,200	4,363,632			
		<b>8,753,957</b>			
<b>Pharmaceuticals 1.4%</b>					
Eli Lilly & Co.	55,700	3,160,975			
Novartis AG (Registered)	28,500	1,436,153			
		<b>4,597,128</b>			
<b>Industrials 8.5%</b>					
<b>Air Freight &amp; Logistics 0.8%</b>					
United Parcel Service, Inc. "B"	32,800	2,803,088			
<b>Commercial Services &amp; Supplies 3.8%</b>					
D&B Corp.*	49,900	2,976,535			
H&R Block, Inc.	106,300	5,208,700			
Iron Mountain, Inc.*	102,700	3,131,323			
Rentokil Initial PLC	446,600	1,266,850			
		<b>12,583,408</b>			
<b>Industrial Conglomerates 3.9%</b>					
Tyco International Ltd.	364,462	13,025,872			
<b>Information Technology 2.7%</b>					
<b>Communications Equipment 0.3%</b>					
Nokia Oyj (ADR)	62,600	980,942			
<b>Computers &amp; Peripherals 1.4%</b>					
Lexmark International, Inc. "A"*	53,400	4,539,000			
<b>Software 1.0%</b>					
Microsoft Corp.	127,700	3,410,867			

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

	Shares	Value (\$)
<b>Materials 4.1%</b>		
<b>Construction Materials 1.3%</b>		
Martin Marietta Materials, Inc.	42,500	2,280,550
Vulcan Materials Co.	42,400	2,315,464
		<b>4,596,014</b>
<b>Containers &amp; Packaging 2.8%</b>		
Sealed Air Corp.*	174,700	9,306,269
<b>Telecommunication Services 0.5%</b>		
<b>Wireless Telecommunication Services</b>		
SK Telecom Co., Ltd. (ADR) (d)	71,600	1,593,100
<b>Total Common Stocks</b> (Cost \$248,054,008)		<b>314,353,449</b>

	Shares	Value (\$)
<b>Securities Lending Collateral 3.1%</b>		
Daily Assets Fund Institutional, 2.25% (c) (e) (Cost \$10,435,680)	10,435,680	10,435,680
<b>Cash Equivalents 6.1%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$20,428,223)	20,428,223	20,428,223
	<b>% of Net Assets</b>	<b>Value (\$)</b>
<b>Total Investment Portfolio</b> (Cost \$278,917,911) (a)	103.2	345,217,352
<b>Other Assets and Liabilities, Net</b>	(3.2)	(10,679,504)
<b>Net Assets</b>	100.0	<b>334,537,848</b>

### Notes to SVS Davis Venture Value Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$279,729,834. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$65,487,518. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$69,049,069 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$3,561,551.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (d) All or a portion of these securities were on loan (see Notes to Financials Statements). The value of all securities loaned at December 31, 2004 amounted to \$10,214,640, which is 3.1% of total net assets.
- (e) Represents collateral held in connection with securities lending.

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$248,054,008) — including \$10,214,640 of securities loaned	\$ 314,353,449
Investment in Daily Assets Fund Institutional (cost \$10,435,680)*	10,435,680
Investment in Scudder Cash Management QP Trust (cost \$20,428,223)	20,428,223
Total investments in securities, at value (cost \$278,917,911)	345,217,352
Cash	13,265
Foreign currency, at value (cost \$161,215)	171,550
Dividends receivable	496,277
Interest receivable	35,289
Receivable for Portfolio shares sold	106,501
Foreign taxes recoverable	4,518
Other assets	11,523
<b>Total assets</b>	<b>346,056,275</b>

### Liabilities

Payable for investments purchased	620,008
Payable upon return of securities loaned	10,435,680
Payable for Portfolio shares redeemed	63,713
Accrued management fee	264,732
Other accrued expenses and payables	134,294
Total liabilities	11,518,427
<b>Net assets, at value</b>	<b>\$ 334,537,848</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	1,834,272
Net unrealized appreciation (depreciation) on:	
Investments	66,299,441
Foreign currency related transactions	10,800
Accumulated net realized gain (loss)	(7,976,396)
Paid-in capital	274,369,731
<b>Net assets, at value</b>	<b>\$ 334,537,848</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$268,490,495 ÷ 23,386,408 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.48</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$66,047,353 ÷ 5,765,180 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 11.46</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$116,150)	\$ 4,881,133
Interest — Scudder Cash Management QP Trust	266,599
Securities lending income, including income from Daily Assets Fund Institutional	19,265
<b>Total Income</b>	<b>5,166,997</b>
Expenses:	
Management fee	2,725,496
Custodian and accounting fees	130,028
Distribution service fees (Class B)	121,863
Record keeping fees (Class B)	61,763
Auditing	73,419
Legal	38,402
Trustee's fees and expenses	4,000
Reports to shareholders	54,191
Registration fees	63
Other	5,924
Total expenses, before expense reductions	3,215,149
Expense reductions	(3,045)
Total expenses, after expense reductions	3,212,104
<b>Net investment income (loss)</b>	<b>1,954,893</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(1,151,700)
Foreign currency related transactions	(6,282)
	(1,157,982)
Net unrealized appreciation (depreciation) during the period on:	
Investments	32,675,903
Foreign currency related transactions	10,800
	32,686,703
<b>Net gain (loss) on investment transactions</b>	<b>31,528,721</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 33,483,614</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 1,954,893	\$ 1,171,027
Net realized gain (loss) on investment transactions	(1,157,982)	(1,944,206)
Net unrealized appreciation (depreciation) on investment transactions during the period	32,686,703	53,830,899
Net increase (decrease) in net assets resulting from operations	33,483,614	53,057,720
Distributions to shareholders from:		
Net investment income		
Class A	(1,002,743)	(926,268)
Class B	(15,708)	(13,751)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	39,970,621	27,361,668
Reinvestment of distributions	1,002,743	926,268
Cost of shares redeemed	(19,163,185)	(15,951,017)
Net increase (decrease) in net assets from Class A share transactions	21,810,179	12,336,919
<b>Class B</b>		
Proceeds from shares sold	32,936,634	24,216,184
Reinvestment of distributions	15,708	13,751
Cost of shares redeemed	(2,151,840)	(50,102)
Net increase (decrease) in net assets from Class B share transactions	30,800,502	24,179,833
<b>Increase (decrease) in net assets</b>	<b>85,075,844</b>	<b>88,634,453</b>
Net assets at beginning of period	249,462,004	160,827,551
Net assets at end of period (including undistributed net investment income of \$1,834,272 and \$964,815, respectively)	<b>\$ 334,537,848</b>	<b>\$ 249,462,004</b>
<b>Other Information</b>		
<b>Class A</b>		
Shares outstanding at beginning of period	21,351,155	20,031,383
Shares sold	3,746,952	3,122,880
Shares issued to shareholder in reinvestment of distributions	93,978	122,360
Shares redeemed	(1,805,677)	(1,925,468)
Net increase (decrease) in Portfolio shares	2,035,253	1,319,772
Shares outstanding at end of period	<b>23,386,408</b>	<b>21,351,155</b>
<b>Class B</b>		
Shares outstanding at beginning of period	2,848,268	100,387
Shares sold	3,116,302	2,751,475
Shares issued to shareholder in reinvestment of distributions	1,471	1,817
Shares redeemed	(200,861)	(5,411)
Net increase (decrease) in Portfolio shares	2,916,912	2,747,881
Shares outstanding at end of period	<b>5,765,180</b>	<b>2,848,268</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001 <sup>a</sup>
<b>Selected Per Share Data</b>				
Net asset value, beginning of period	\$ 10.31	\$ 7.99	\$ 9.50	\$ 10.00
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>b</sup>	.08	.06	.05	.03
Net realized and unrealized gain (loss) on investment transactions	1.14	2.31	(1.55)	(.53)
<b>Total from investment operations</b>	<b>1.22</b>	<b>2.37</b>	<b>(1.50)</b>	<b>(.50)</b>
<i>Less distributions from:</i>				
Net investment income	(.05)	(.05)	(.01)	—
<b>Net asset value, end of period</b>	<b>\$ 11.48</b>	<b>\$ 10.31</b>	<b>\$ 7.99</b>	<b>\$ 9.50</b>
Total Return (%)	11.83	29.84	(15.79)	(5.00)**

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	268	220	160	109
Ratio of expenses (%)	1.05	1.01	1.02	1.09*
Ratio of net investment income (loss) (%)	.74	.62	.62	.48*
Portfolio turnover rate (%)	3	7	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.

\* Annualized

\*\* Not annualized

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 10.29	\$ 7.98	\$ 8.52
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.04	.02	.04
Net realized and unrealized gain (loss) on investment transactions	1.13	2.32	(.58)
<b>Total from investment operations</b>	<b>1.17</b>	<b>2.34</b>	<b>(.54)</b>
<i>Less distributions from:</i>			
Net investment income	— <sup>***</sup>	(.03)	—
<b>Net asset value, end of period</b>	<b>\$ 11.46</b>	<b>\$ 10.29</b>	<b>\$ 7.98</b>
Total Return (%)	11.42	29.42	(6.34)**

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	66	29	.8
Ratio of expenses (%)	1.44	1.40	1.27*
Ratio of net investment income (loss) (%)	.36	.23	1.06*
Portfolio turnover rate (%)	3	7	22

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

\*\*\* Amount is less than \$.005.

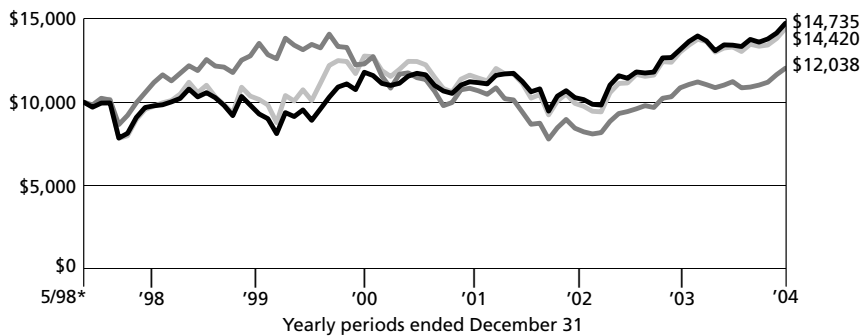
## SVS Dreman Financial Services Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk. It may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Additionally, this Portfolio is non-diversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in SVS Dreman Financial Services Portfolio from 5/4/1998 to 12/31/2004

- SVS Dreman Financial Services Portfolio — Class A
- S&P 500 Index
- S&P Financial 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 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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

SVS Dreman Financial Services Portfolio	1-Year	3-Year	5-Year	Life of Portfolio*
<b>Class A</b>				
Growth of \$10,000	\$11,200	\$13,130	\$15,870	\$14,735
Average annual total return	12.00%	9.50%	9.68%	5.99%
<b>S&amp;P 500 Index</b>				
Growth of \$10,000	\$11,088	\$11,115	\$8,902	\$12,038
Average annual total return	10.88%	3.59%	-2.30%	2.82%
<b>S&amp;P Financial Index</b>				
Growth of \$10,000	\$11,089	\$12,403	\$14,195	\$14,420
Average annual total return	10.89%	7.44%	7.26%	5.64%
<b>SVS Dreman Financial Services Portfolio</b>	<b>1-Year</b>	<b>Life of Class**</b>		
<b>Class B</b>				
Growth of \$10,000		\$11,150	\$13,177	
Average annual total return		11.50%	11.65%	
<b>S&amp;P 500 Index</b>				
Growth of \$10,000		\$11,088	\$12,800	
Average annual total return		10.88%	10.38%	
<b>S&amp;P Financial Index</b>				
Growth of \$10,000		\$11,089	\$12,953	
Average annual total return		10.89%	10.90%	

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 4, 1998. Index returns begin April 30, 1998. Total returns would have been lower for the 5-Year and Life of Portfolio periods for Class A shares if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## SVS Dreman Financial Services Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,098.50	\$ 1,096.10
Expenses Paid per \$1,000*	\$ 4.45	\$ 6.43
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,020.82	\$ 1,018.93
Expenses Paid per \$1,000*	\$ 4.29	\$ 6.19

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — SVS Dreman Financial Services Portfolio	.85%	1.22%

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



## SVS Dreman Financial Services Portfolio

Financial stocks posted strong gains in 2004, keeping pace with the broader stock market. The portfolio (Class A shares, unadjusted for contract charges) posted a total return of 12.00%, outperforming the 10.88% return of its benchmark, the Standard & Poor's 500, for the year ended December 31, 2004.

Individual stock selection proved more important than sub-sector positioning during the fiscal period ended December 31, 2004. The portfolio's top performers all were among its 10 largest holdings, including Bank of America Corp., American Express Co. and Freddie Mac. Bank of America rebounded steadily from temporary lows sustained after the company's ultimately successful bid to acquire FleetBoston at a substantial premium was announced in October 2003. American Express Co., benefited from increased customer credit card spending, higher balances and improved travel sales. Mortgage giant Freddie Mac, continued to recover from losses suffered after an investigation into the company's accounting practices was launched nearly two years ago. To date, no evidence of illegal action of any kind has been found.

Other portfolio holdings, unfortunately, did not fare as well. Mortgage provider Fannie Mae declined when its accounting practices came under investigation and were deemed improper by the SEC. Citigroup also suffered when, after a breach of securities regulations, it was forced to shut down its private banking business in Japan. We are disappointed by these events. However, the issuers have taken steps to address this situation and we expect the stocks to recover as the controversies abate.

We thank you for your continued investment. We will remain true to our contrarian philosophy of investing, in hopes of adding more value for shareholders over time.

David N. Dreman	F. James Hutchinson
Lead Manager	Portfolio Manager
Dreman Value Management, L.L.C., Subadvisor to the Portfolio	

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. It may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Additionally, this portfolio is non-diversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*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 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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## SVS Dreman Financial Services Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	100%	96%
Cash Equivalents	—	4%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Banks	45%	46%
Diversified Financial Services	28%	30%
Insurance	13%	18%
Capital Markets	9%	2%
Consumer Finance	5%	4%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 172. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Dreman Financial Services Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 99.9%</b>			<b>Diversified Financial Services 28.2%</b>		
<b>Financials 99.9%</b>			Allied Capital Corp. (d)	77,495	2,002,471
<b>Banks 44.7%</b>			CIT Group, Inc.	54,390	2,492,150
Bank of America Corp.	276,120	12,974,879	Citigroup, Inc.	137,300	6,615,114
Banknorth Group, Inc.	52,511	1,921,903	Fannie Mae	136,480	9,718,741
Golden West Financial Corp.	35,500	2,180,410	Freddie Mac	249,305	18,373,778
Independence Community Bank Corp.	15,800	672,764	JPMorgan Chase & Co.	165,024	6,437,586
KeyCorp	188,055	6,375,064			<b>45,639,840</b>
Mercantile Bankshares Corp.	40,500	2,114,100	<b>Insurance 13.2%</b>		
National Bank of Canada	152,350	6,301,770	Allstate Corp.	39,595	2,047,855
National City Corp.	59,631	2,239,144	American International Group, Inc.	233,173	15,312,471
PNC Financial Services Group	64,740	3,718,666	Chubb Corp.	23,030	1,771,007
Popular, Inc.	98,000	2,825,340	Prudential Financial, Inc.	18,390	1,010,714
Regions Financial Corp.	80,172	2,853,321	St. Paul Travelers Companies, Inc.	32,705	1,212,374
Sovereign Bancorp, Inc.	120,875	2,725,731			<b>21,354,421</b>
Sterling Financial Corp.*	1,034	40,595	<b>Real Estate 0.1%</b>		
US Bancorp	190,120	5,954,558	Government Properties Trust, Inc. (REIT)	22,800	224,808
Wachovia Corp.	86,140	4,530,964			
Washington Mutual, Inc.	284,932	12,046,925	<b>Total Common Stocks (Cost \$121,124,627)</b>		<b>161,890,892</b>
Wells Fargo & Co.	48,610	3,021,112			
		<b>72,497,246</b>	<b>Securities Lending Collateral 1.1%</b>		
<b>Capital Markets 8.6%</b>			Daily Assets Fund Institutional, 2.25% (c) (e) (Cost \$1,834,875)	1,834,875	1,834,875
Bear Stearns Companies, Inc.	20,640	2,111,678	<b>Cash Equivalents 0.2%</b>		
Franklin Resources, Inc.	20,910	1,456,382	Scudder Cash Management QP Trust, 2.24% (b) (Cost \$360,509)	360,509	360,509
Goldman Sachs Group, Inc.	19,700	2,049,588			
Lehman Brothers Holdings, Inc.	20,700	1,810,836			
Merrill Lynch & Co., Inc.	54,550	3,260,453			
Morgan Stanley	57,980	3,219,050			
Piper Jaffray Companies, Inc.*	1,842	88,324			
		<b>13,996,311</b>			
<b>Consumer Finance 5.1%</b>					
American Express Co.	116,450	6,564,286			
SLM Corp.	30,230	1,613,980			
		<b>8,178,266</b>			
				<b>% of Net Assets</b>	<b>Value (\$)</b>
			<b>Total Investment Portfolio (Cost \$123,320,011) (a)</b>	101.2	<b>164,086,276</b>
			<b>Other Assets and Liabilities, Net</b>	(1.2)	<b>(1,939,904)</b>
			<b>Net Assets</b>	100.0	<b>162,146,372</b>

## Notes to SVS Dreman Financial Services Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$123,969,302. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$40,116,974. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$42,366,596 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$2,249,622.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (d) A portion of this security was on loan. The value of the security loaned at December 31, 2004 amounted to \$1,806,216, which is 1.1% of net assets.
- (e) Represents collateral held in connection with securities lending.

REIT: Real Estate Investment Trust

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$121,124,627) — including \$1,806,216 of securities loaned	\$ 161,890,892
Investment in Daily Assets Fund Institutional (cost \$1,834,875)*	1,834,875
Investment in Scudder Cash Management QP Trust (cost \$360,509)	360,509
Total investments in securities, at value (cost \$123,320,011)	164,086,276
Cash	10,000
Dividends receivable	143,670
Interest receivable	12,760
Receivable for Portfolio shares sold	25,266
Other assets	10,882
<b>Total assets</b>	<b>164,288,854</b>

### Liabilities

Payable for Portfolio shares redeemed	133,197
Payable upon return of securities loaned	1,834,875
Accrued management fee	99,842
Other accrued expenses and payables	74,568
Total liabilities	2,142,482
<b>Net assets, at value</b>	<b>\$ 162,146,372</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	2,663,849
Net unrealized appreciation (depreciation) on:	
Investments	40,766,265
Foreign currency related transactions	1,558
Accumulated net realized gain (loss)	(6,301,571)
Paid-in capital	125,016,271
<b>Net assets, at value</b>	<b>\$ 162,146,372</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$144,759,973 ÷ 10,645,952 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 13.60</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$17,386,399 ÷ 1,281,273 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 13.57</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$33,086)	\$ 4,022,501
Interest — Scudder Cash Management QP Trust	23,032
Securities lending income, including income from Daily Assets Fund Institutional	60,833
<b>Total Income</b>	<b>4,106,366</b>
Expenses:	
Management fee	1,170,409
Custodian and accounting fees	68,365
Distribution service fees (Class B)	34,738
Record keeping fees (Class B)	18,000
Auditing	41,320
Legal	19,946
Trustees' fees and expenses	636
Reports to shareholders	17,773
Total expenses, before expense reductions	1,371,187
Expense reductions	(1,896)
Total expenses, after expense reductions	1,369,291
<b>Net investment income (loss)</b>	<b>2,737,075</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	1,312,903
Foreign currency related transactions	913
	1,313,816
Net unrealized appreciation (depreciation) during the period on:	
Investments	13,544,585
Foreign currency related transactions	971
	13,545,556
<b>Net gain (loss) on investment transactions</b>	<b>14,859,372</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 17,596,447</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 2,737,075	\$ 2,369,818
Net realized gain (loss) on investment transactions	1,313,816	(2,049,136)
Net unrealized appreciation (depreciation) on investment transactions during the period	13,545,556	32,205,547
Net increase (decrease) in net assets resulting from operations	17,596,447	32,526,229
Distributions to shareholders from:		
Net investment income		
Class A	(2,233,509)	(1,844,106)
Class B	(138,571)	(20,489)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	9,238,024	11,621,806
Reinvestment of distributions	2,233,509	1,844,106
Cost of shares redeemed	(23,157,778)	(20,443,301)
Net increase (decrease) in net assets from Class A share transactions	(11,686,245)	(6,977,389)
<b>Class B</b>		
Proceeds from shares sold	7,389,810	8,184,393
Reinvestment of distributions	138,571	20,489
Cost of shares redeemed	(1,105,504)	(298,889)
Net increase (decrease) in net assets from Class B share transactions	6,422,877	7,905,993
<b>Increase (decrease) in net assets</b>	<b>9,960,999</b>	<b>31,590,238</b>
Net assets at beginning of period	152,185,373	120,595,135
Net assets at end of period (including undistributed net investment income of \$2,663,849 and \$2,297,941, respectively)	<b>\$ 162,146,372</b>	<b>\$ 152,185,373</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	11,569,224	12,274,256
Shares sold	730,584	1,078,203
Shares issued to shareholders in reinvestment of distributions	176,982	200,228
Shares redeemed	(1,830,838)	(1,983,463)
Net increase (decrease) in Portfolio shares	(923,272)	(705,032)
Shares outstanding at end of period	<b>10,645,952</b>	<b>11,569,224</b>
<b>Class B</b>		
Shares outstanding at beginning of period	771,080	39,762
Shares sold	586,845	755,394
Shares issued to shareholders in reinvestment of distributions	10,971	2,225
Shares redeemed	(87,623)	(26,301)
Net increase (decrease) in Portfolio shares	510,193	731,318
Shares outstanding at end of period	<b>1,281,273</b>	<b>771,080</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 12.33	\$ 9.79	\$ 10.78	\$ 11.53	\$ 9.24
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.23	.20	.15	.14	.19
Net realized and unrealized gain (loss) on investment transactions	1.23	2.50	(1.06)	(.71)	2.27
<b>Total from investment operations</b>	<b>1.46</b>	<b>2.70</b>	<b>(.91)</b>	<b>(.57)</b>	<b>2.46</b>
<i>Less distributions from:</i>					
Net investment income	(.20)	(.16)	(.08)	(.13)	(.15)
Net realized gains on investment transactions	—	—	—	(.05)	(.02)
<b>Total distributions</b>	<b>(.20)</b>	<b>(.16)</b>	<b>(.08)</b>	<b>(.18)</b>	<b>(.17)</b>
<b>Net asset value, end of period</b>	<b>\$ 13.60</b>	<b>\$ 12.33</b>	<b>\$ 9.79</b>	<b>\$ 10.78</b>	<b>\$ 11.53</b>
Total Return (%)	12.00	28.13	(8.51)	(4.86)	27.04 <sup>c</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	145	143	120	117	66
Ratio of expenses before expense reductions (%)	.84	.86	.83	.86	.91
Ratio of expenses after expense reductions (%)	.84	.86	.83	.86	.89
Ratio of net investment income (loss) (%)	1.79	1.84	1.44	1.31	2.01
Portfolio turnover rate (%)	8	7	13	22	13

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Share information, for the period 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.

<sup>c</sup> Total return would have been lower had certain expenses not been reduced.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 12.31	\$ 9.78	\$ 10.57
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.18	.14	.06
Net realized and unrealized gain (loss) on investment transactions	1.22	2.53	(.85)
<b>Total from investment operations</b>	<b>1.40</b>	<b>2.67</b>	<b>(.79)</b>
<i>Less distributions from:</i>			
Net investment income	(.14)	(.14)	—
<b>Net asset value, end of period</b>	<b>\$ 13.57</b>	<b>\$ 12.31</b>	<b>\$ 9.78</b>
Total Return (%)	11.50	27.73	(7.47)**
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	17	9	.4
Ratio of expenses (%)	1.22	1.25	1.08*
Ratio of net investment income (loss) (%)	1.41	1.45	1.33*
Portfolio turnover rate (%)	8	7	13

<sup>a</sup> For the period from July 1, 2002 (commencement of operations 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.

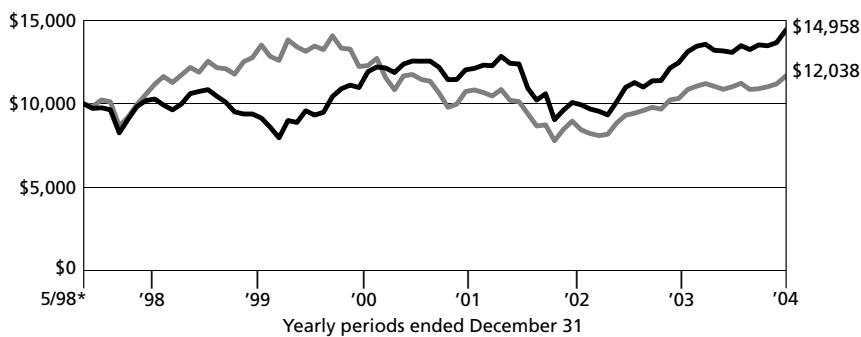
## SVS Dreman High Return Equity Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

The Portfolio may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in SVS Dreman High Return Equity Portfolio from 5/4/1998 to 12/31/2004

- 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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

SVS Dreman High Return Equity Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$11,395	\$12,333	\$16,369	\$14,958
	Average annual total return	13.95%	7.24%	10.36%	6.23%
S&P 500 Index	Growth of \$10,000	\$11,088	\$11,115	\$8,902	\$12,038
	Average annual total return	10.88%	3.59%	-2.30%	2.82%
SVS Dreman High Return Equity Portfolio		1-Year	Life of Class**		
Class B	Growth of \$10,000	\$11,353	\$13,660		
	Average annual total return	13.53%	13.27%		
S&P 500 Index	Growth of \$10,000	\$11,088	\$12,800		
	Average annual total return	10.88%	10.38%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 4, 1998. Index returns begin April 30, 1998.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## SVS Dreman High Return Equity Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

<b>Actual Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,108.70	\$ 1,106.90
Expenses Paid per \$1,000*	\$ 4.19	\$ 6.18

<b>Hypothetical 5% Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,021.09	\$ 1,019.20
Expenses Paid per \$1,000*	\$ 4.02	\$ 5.93

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

<b>Annualized Expense Ratios</b>	<b>Class A</b>	<b>Class B</b>
Scudder Variable Series II — SVS Dreman High Return Equity Portfolio	.79%	1.17%

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



## SVS Dreman High Return Equity Portfolio

We are pleased to announce that the portfolio (Class A shares, unadjusted for contract changes) posted a total return of 13.95% for the 12-month period ended December 31, 2004. The Class A shares of the portfolio also outperformed the 10.88% return of its benchmark, the Standard & Poor's 500 Index. The portfolio also outperformed the S&P 500 in the three- and five-year periods ended December 31, 2004.

The portfolio's two heaviest overweight positions relative to the benchmark S&P 500 — energy and tobacco companies — proved most advantageous. The strongest performance came from energy stocks, which were driven by historically high oil and natural gas prices. Among individual energy holdings, Transocean, Inc. a drilling company and diversified energy giants ConocoPhillips and Chevron Texaco Corp. were the largest gainers. In tobacco, increased sales and aggressive cost-cutting measures helped bolster profits of Reynolds American Inc., whose subsidiary R.J. Reynolds Tobacco Co. is one of the largest producers and marketers of cigarettes. Smokeless tobacco giant UST, Inc. benefited from increased sales and higher selling prices, which helped the company grow earnings beyond estimates. In order to lock in profits, we pared back the portfolio's position in these stocks as they appreciated.

Financial and pharmaceutical stocks were the most troublesome for the portfolio this year. Merck & Co., Inc. declined dramatically after pulling its osteoarthritis drug, Vioxx from pharmacy shelves when a study linked the medication to a higher incidence of stroke and heart attack. Mortgage provider Fannie Mae declined when its accounting practices came under investigation and were deemed improper by the SEC. While we're disappointed in the events that led to the declines in these holdings, we believe they are temporary setbacks. We continue to hold both stocks.

We're pleased with the portfolio's composition and believe it offers a great deal of value in the coming year. We thank you for your investment and look forward to continuing to serve your needs.

David N. Dreman

F. James Hutchinson

Co-Managers

Dreman Value Management L.L.C., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*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 all distributions and do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## SVS Dreman High Return Equity Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	92%	90%
Cash Equivalents	8%	10%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	34%	32%
Consumer Staples	21%	21%
Health Care	17%	16%
Energy	14%	10%
Consumer Discretionary	8%	11%
Industrials	3%	4%
Information Technology	3%	5%
Utilities	—	1%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 180. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Dreman High Return Equity Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 91.6%</b>					
<b>Consumer Discretionary 7.1%</b>					
<b>Automobiles 0.6%</b>					
Ford Motor Co.	345,000	5,050,800			
<b>Multiline Retail 0.9%</b>					
Federated Department Stores, Inc.	129,505	7,484,094			
<b>Specialty Retail 5.6%</b>					
Best Buy Co., Inc.	47,225	2,806,109			
Borders Group, Inc.	712,900	18,107,660			
Home Depot, Inc.	388,455	16,602,567			
Staples, Inc.	334,165	11,264,702			
		<b>48,781,038</b>			
<b>Consumer Staples 19.4%</b>					
<b>Food &amp; Staples Retailing 0.5%</b>					
Safeway, Inc.*	232,650	4,592,511			
<b>Tobacco 18.9%</b>					
Altria Group, Inc.	1,349,420	82,449,562			
Imperial Tobacco Group (ADR)	95,145	5,256,761			
Reynolds American, Inc. (c)	298,073	23,428,538			
Universal Corp.	266,570	12,752,709			
UST, Inc.	816,640	39,288,550			
		<b>163,176,120</b>			
<b>Energy 12.6%</b>					
<b>Energy Equipment &amp; Services 0.7%</b>					
Transocean, Inc.*	154,200	6,536,538			
<b>Oil &amp; Gas 11.9%</b>					
Apache Corp.	8,200	414,674			
Burlington Resources, Inc.	6,400	278,400			
Chevron Texaco Corp.	562,860	29,555,779			
ConocoPhillips	465,823	40,447,411			
Devon Energy Corp.	306,250	11,919,250			
El Paso Corp.	846,510	8,803,704			
EnCana Corp.	31,800	1,814,508			
Kerr-McGee Corp.	120,300	6,952,137			
Occidental Petroleum Corp.	44,279	2,584,122			
		<b>102,769,985</b>			
<b>Financials 30.9%</b>					
<b>Banks 13.0%</b>					
Bank of America Corp.	521,636	24,511,676			
KeyCorp	335,280	11,365,992			
PNC Financial Services Group	236,014	13,556,644			
Sovereign Bancorp, Inc.	501,910	11,318,070			
US Bancorp	265,700	8,321,724			
Wachovia Corp.	140,000	7,364,000			
Washington Mutual, Inc.	854,175	36,114,519			
		<b>112,552,625</b>			
<b>Capital Markets 0.0%</b>					
Piper Jaffray Companies, Inc.*	2,657	127,403			
<b>Diversified Financial Services 15.0%</b>					
CIT Group, Inc.	89,100	4,082,562			
Fannie Mae	652,073	46,434,118			
Freddie Mac	1,000,341	73,725,132			
JPMorgan Chase & Co.	132,864	5,183,025			
		<b>129,424,837</b>			
<b>Insurance 2.9%</b>					
American International Group, Inc.	331,300	21,756,471			
St. Paul Travelers Companies, Inc.	98,405	3,647,874			
		<b>25,404,345</b>			
<b>Health Care 15.9%</b>					
<b>Health Care Equipment &amp; Supplies 1.0%</b>					
Becton, Dickinson & Co.	145,055	8,239,124			
<b>Health Care Providers &amp; Services 8.8%</b>					
AmerisourceBergan Corp.	218,000	12,792,240			
Cardinal Health, Inc.	119,400	6,943,110			
HCA, Inc.	296,200	11,836,152			
Laboratory Corp. of America Holdings*	343,075	17,091,996			
Medco Health Solutions, Inc.*	316,434	13,163,654			
Quest Diagnostics, Inc.	145,550	13,907,303			
		<b>75,734,455</b>			
<b>Pharmaceuticals 6.1%</b>					
Bristol-Myers Squibb Co.	875,560	22,431,847			
Merck & Co., Inc.	360,195	11,576,667			
Pfizer, Inc.	479,530	12,894,562			
Schering-Plough Corp.	134,905	2,816,817			
Wyeth	75,775	3,227,257			
		<b>52,947,150</b>			
<b>Industrials 2.6%</b>					
<b>Industrial Conglomerates</b>					
General Electric Co.	209,350	7,641,275			
Tyco International Ltd.	415,005	14,832,279			
		<b>22,473,554</b>			
<b>Information Technology 3.1%</b>					
<b>IT Consulting &amp; Services</b>					
Electronic Data Systems Corp.	1,147,840	26,515,104			
<b>Utilities 0.0%</b>					
<b>Gas Utilities</b>					
NiSource, Inc.	5,303	120,802			
<b>Total Common Stocks (Cost \$637,942,324)</b>			<b>791,930,485</b>		
<b>Securities Lending Collateral 2.3%</b>					
Daily Assets Fund Institutional, 2.25% (d) (e) (Cost \$19,806,450)	19,806,450	19,806,450			
<b>Cash Equivalents 8.0%</b>					
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$68,968,040)	68,968,040	68,968,040			
			<b>% of Net Assets</b>	<b>Value (\$)</b>	
<b>Total Investment Portfolio (Cost \$726,716,814) (a)</b>			101.9	<b>880,704,975</b>	
<b>Other Assets and Liabilities, Net</b>			(1.9)	<b>(16,463,874)</b>	
<b>Net Assets</b>			100.0	<b>864,241,101</b>	

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 \$727,953,999. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$152,750,976. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$194,020,894 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$41,269,918.
- (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) A portion of this security was on loan (see Notes to Financial Statements). The value of the security loaned at December 31, 2004 amounted to \$19,352,752, which is 2.2% of net assets.
- (d) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (e) Represents collateral held in connection with securities lending.

At December 31, 2004, open futures contracts purchased were as follows:

<b>Futures</b>	<b>Expiration Date</b>	<b>Contracts</b>	<b>Aggregated Face Value (\$)</b>	<b>Value (\$)</b>	<b>Net Unrealized Appreciation (Depreciation) (\$)</b>
S&P 500 Index Future	3/17/2005	121	35,911,288	36,714,425	803,137

ADR: American Depositary Receipts

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$637,942,324) — including \$19,352,752 of securities loaned	\$ 791,930,485
Investment in Daily Assets Fund Institutional (cost \$19,806,450)*	19,806,450
Investment in Scudder Cash Management QP Trust (cost \$68,968,040)	68,968,040
<b>Total investments in securities, at value (cost \$726,716,814)</b>	<b>880,704,975</b>
Cash	7,297
Margin deposit	3,000,000
Dividends receivable	1,722,982
Interest receivable	123,092
Receivable for Portfolio shares sold	109,312
Other assets	24,681
<b>Total assets</b>	<b>885,692,339</b>

### Liabilities

Payable for Portfolio shares redeemed	876,789
Payable upon return of securities loaned	19,806,450
Payable for daily variation margin on open futures contracts	30,250
Accrued management fee	512,877
Other accrued expenses and payables	224,872
<b>Total liabilities</b>	<b>21,451,238</b>
<b>Net assets, at value</b>	<b>\$ 864,241,101</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	14,597,599
Net unrealized appreciation (depreciation) on:	
Investments	153,988,161
Futures	803,137
Accumulated net realized gain (loss)	(21,350,049)
Paid-in capital	716,202,253
<b>Net assets, at value</b>	<b>\$ 864,241,101</b>

#### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$746,974,983 ÷ 59,052,129 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.65</b>
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#### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$117,266,118 ÷ 9,286,484 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 12.63</b>
--	-----------------

\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$18,050)	\$ 20,328,943
Interest — Scudder Cash Management QP Trust	955,273
Securities lending income, including income from Daily Assets Fund Institutional	11,345
<b>Total Income</b>	<b>21,295,561</b>
Expenses:	
Management fee	5,664,121
Custodian and accounting fees	168,365
Distribution service fees (Class B)	230,719
Record keeping fees (Class B)	121,434
Auditing	41,147
Legal	17,553
Trustees' fees and expenses	12,577
Reports to shareholders	137,634
Registration fees	610
Other	26,773
<b>Total expenses, before expense reductions</b>	<b>6,420,933</b>
Expense reductions	(6,809)
<b>Total expenses, after expense reductions</b>	<b>6,414,124</b>
<b>Net investment income (loss)</b>	<b>14,881,437</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	6,959,277
Futures	4,188,252
	11,147,529
Net unrealized appreciation (depreciation) during the period on:	
Investments	80,273,108
Futures	(1,410,615)
	78,862,493
<b>Net gain (loss) on investment transactions</b>	<b>90,010,022</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 104,891,459</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 14,881,437	\$ 12,351,057
Net realized gain (loss) on investment transactions	11,147,529	10,010,852
Net unrealized appreciation (depreciation) on investment transactions during the period	78,862,493	149,662,562
Net increase (decrease) in net assets resulting from operations	104,891,459	172,024,471
Distributions to shareholders from:		
Net investment income		
Class A	(11,297,007)	(11,229,274)
Class B	(1,021,598)	(193,827)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	38,718,500	51,591,121
Reinvestment of distributions	11,297,007	11,229,274
Cost of shares redeemed	(55,620,546)	(50,121,722)
Net increase (decrease) in net assets from Class A share transactions	(5,605,039)	12,698,673
<b>Class B</b>		
Proceeds from shares sold	42,816,407	52,862,147
Reinvestment of distributions	1,021,598	193,827
Cost of shares redeemed	(4,506,330)	(584,554)
Net increase (decrease) in net assets from Class B share transactions	39,331,675	52,471,420
<b>Increase (decrease) in net assets</b>	<b>126,299,490</b>	<b>225,771,463</b>
Net assets at beginning of period	737,941,611	512,170,148
Net assets at end of period (including undistributed net investment income of \$14,597,599 and \$12,034,767, respectively)	<b>\$ 864,241,101</b>	<b>\$ 737,941,611</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	59,527,655	58,214,359
Shares sold	3,370,933	5,422,760
Shares issued to shareholders in reinvestment of distributions	1,011,370	1,398,415
Shares redeemed	(4,857,829)	(5,507,879)
Net increase (decrease) in Portfolio shares	(475,526)	1,313,296
Shares outstanding at end of period	<b>59,052,129</b>	<b>59,527,655</b>
<b>Class B</b>		
Shares outstanding at beginning of period	5,819,055	251,123
Shares sold	3,763,080	5,599,747
Shares issued to shareholders in reinvestment of distributions	91,377	24,108
Shares redeemed	(387,028)	(55,923)
Net increase (decrease) in Portfolio shares	3,467,429	5,567,932
Shares outstanding at end of period	<b>9,286,484</b>	<b>5,819,055</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 11.29	\$ 8.76	\$ 10.81	\$ 10.77	\$ 8.96
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.23	.20	.21	.19	.26
Net realized and unrealized gain (loss) on investment transactions	1.32	2.53	(2.13)	(.01)	2.25
<b>Total from investment operations</b>	<b>1.55</b>	<b>2.73</b>	<b>(1.92)</b>	<b>.18</b>	<b>2.51</b>
<i>Less distributions from:</i>					
Net investment income	(.19)	(.20)	(.09)	(.14)	(.20)
Net realized gains on investment transactions	—	—	(.04)	—	(.50)
<b>Total distributions</b>	<b>(.19)</b>	<b>(.20)</b>	<b>(.13)</b>	<b>(.14)</b>	<b>(.70)</b>
<b>Net asset value, end of period</b>	<b>\$ 12.65</b>	<b>\$ 11.29</b>	<b>\$ 8.76</b>	<b>\$ 10.81</b>	<b>\$ 10.77</b>
Total Return (%)	13.95	32.04	(18.03)	1.69	30.52
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	747	672	510	443	168
Ratio of expenses before expense reductions (%)	.78	.79	.79	.82	.85
Ratio of expenses after expense reductions (%)	.78	.79	.79	.82	.84
Ratio of net investment income (loss) (%)	1.96	2.14	2.21	1.78	2.85
Portfolio turnover rate (%)	9	18	17	16	37

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period 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

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 11.27	\$ 8.75	\$ 9.57
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.18	.16	.18
Net realized and unrealized gain (loss) on investment transactions	1.33	2.53	(1.00)
<b>Total from investment operations</b>	<b>1.51</b>	<b>2.69</b>	<b>(.82)</b>
<i>Less distributions from:</i>			
Net investment income	(.15)	(.17)	—
<b>Net asset value, end of period</b>	<b>\$ 12.63</b>	<b>\$ 11.27</b>	<b>\$ 8.75</b>
Total Return (%)	13.53	31.60	(8.57)**
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	117	66	2
Ratio of expenses (%)	1.16	1.18	1.05*
Ratio of net investment income (loss) (%)	1.58	1.75	4.30*
Portfolio turnover rate (%)	9	18	17

<sup>a</sup> For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

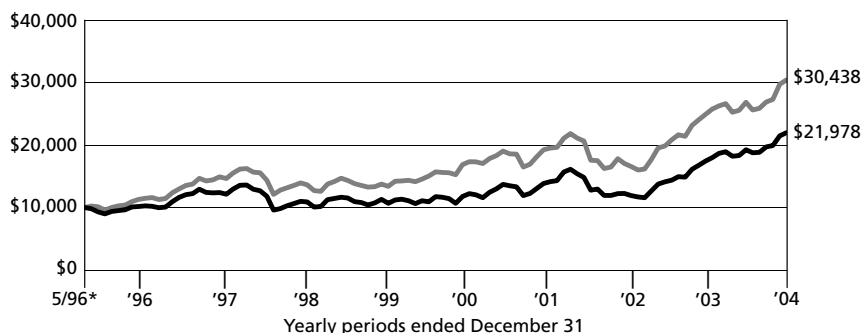
## SVS Dreman Small Cap Value Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk. Stocks of small companies involve greater risk, as they often have limited product lines, markets or financial resources and may be exposed to more erratic and abrupt market movements than securities of larger, more-established companies. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in SVS Dreman Small Cap Value Portfolio from 5/1/1996 to 12/31/2004

- SVS Dreman Small Cap Value Portfolio — Class A
- Russell 2000 Value Index



The Russell 2000 Value Index is an unmanaged index which 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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

SVS Dreman Small Cap Value Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$12,603	\$15,868	\$19,428	\$21,978
	Average annual total return	26.03%	16.64%	14.20%	9.51%
Russell 2000 Value Index					
	Growth of \$10,000	\$12,225	\$15,812	\$22,144	\$30,438
	Average annual total return	22.25%	16.50%	17.23%	13.70%
SVS Dreman Small Cap Value Portfolio				1-Year	Life of Class**
Class B	Growth of \$10,000		\$12,552	\$14,945	
	Average annual total return		25.52%	17.42%	
Russell 2000 Value Index		Growth of \$10,000		\$12,225	\$14,742
		Average annual total return		22.25%	16.79%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 1996. Index returns begin April 30, 1996.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.



# Information About Your Portfolio's Expenses

## SVS Dreman Small Cap Value Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,142.40	\$ 1,140.70
Expenses Paid per \$1,000*	\$ 4.19	\$ 6.19
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,021.29	\$ 1,019.29
Expenses Paid per \$1,000*	\$ 3.96	\$ 5.83

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — SVS II Dreman Small Cap Value Portfolio	.78%	1.15%

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

## SVS Dreman Small Cap Value Portfolio

The portfolio benefited from a market that continued to favor small capitalization stocks over their large cap counterparts and value- over growth-style investing. The Russell 2000 Value Index, generally a measure of the small cap value universe and the fund's benchmark, gained 22.25% for the year ended November 30, 2004.<sup>1</sup> This compares with the Russell 1000 Value Index, generally a measure of the large cap value universe, which rose 16.49%; and the Russell 2000 Growth Index, generally a measure of the small cap growth universe, which advanced 10.83%, also for the period.<sup>2</sup> The portfolio (Class A shares, unadjusted for contract charges) outperformed all of those indices, by posting a total return of 26.03% in 2004.

The portfolio's overweight position in energy, which climbed along with crude oil and natural gas prices, was a significant contributor. Strong performance came from Ultra Petroleum Corp., an independent producer of oil and gas that soared on the news of a major discovery of natural gas on one of its properties. The portfolio also benefited from its investment in merchant energy company Reliant Energy, Inc.

In 2004, the portfolio sustained only small losses in individual stocks. Stillwater Mining Co. is a metals and mining stock that trades like commodities. Its performance is closely tied to the health of the economy, making earnings volatile. A significant decline in the price of the commodities prompted the portfolio to take a small loss in the position as we eliminated the stock from the portfolio. Parallel Petroleum Corp. is engaged in the production of oil and natural gas. The fund held a small position in the stock, which it sold at a small loss in order to focus on other names in the energy space with greater potential.

David N. Dreman  
Nelson Woodard

Co-Managers  
Dreman Value Management, L.L.C., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. Stocks of small companies involve greater risk than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be exposed to more erratic and abrupt market movements. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

<sup>1</sup> *The Russell 2000 Value Index is an unmanaged index that measures the performance of those Russell 2000 companies with lower price-to-book (P/B) ratios and lower forecasted growth values. P/B is equal to a stock's market capitalization divided by its book value. (This ratio compares the market's valuation of a company to the value of that company as indicated on its financial statements.)*

<sup>2</sup> *The Russell 1000 Value Index is an unmanaged index, which consists of those stocks in the Russell 1000 Index with lower price-to-book (P/B) ratios and lower forecasted-growth values. The Russell 2000 Growth Index is an unmanaged index that measures the performance of those Russell 2000 companies with higher price-to-book (P/B) ratios and higher forecasted growth values. P/B is equal to a stock's market capitalization divided by its book value. (This ratio compares the market's valuation of a company to the value of that company as indicated on its financial statements.)*

*Index returns assume reinvested dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

# Portfolio Summary

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## SVS Dreman Small Cap Value Portfolio

Asset Allocation	12/31/04	12/31/03
Common Stocks	95%	96%
Cash Equivalents	3%	3%
Corporate Bonds	1%	—
Closed-End Investment Company	1%	—
Exchange Traded Funds	—	1%
	100%	100%

Sector Diversification (Excludes Cash Equivalents)	12/31/04	12/31/03
Financials	28%	36%
Industrials	21%	18%
Health Care	10%	8%
Materials	10%	1%
Utilities	8%	5%
Energy	7%	10%
Consumer Discretionary	6%	13%
Information Technology	5%	3%
Consumer Staples	5%	6%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 189. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Dreman Small Cap Value Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 94.2%</b>					
<b>Consumer Discretionary 5.8%</b>					
<b>Auto Components 0.2%</b>					
Noble International Ltd.	48,000	978,720			
<b>Hotels Restaurants &amp; Leisure 1.9%</b>					
Alliance Gaming Corp.*	353,200	4,877,692			
Bluegreen Corp.*	40,700	807,081			
CBRL Group, Inc.	74,300	3,109,455			
Navigant International, Inc.*	114,100	1,388,597			
		<b>10,182,825</b>			
<b>Household Durables 0.3%</b>					
Standard Pacific Corp.	20,200	1,295,628			
<b>Leisure Equipment &amp; Products 0.7%</b>					
Lakes Entertainment, Inc.*	237,800	3,873,762			
<b>Specialty Retail 1.9%</b>					
Borders Group, Inc.	90,600	2,301,240			
Linens 'N Things, Inc.*	99,800	2,475,040			
Mettler-Toledo International, Inc.*	105,900	5,433,729			
		<b>10,210,009</b>			
<b>Textiles, Apparel &amp; Luxury Goods 0.8%</b>					
Phillips-Van Heusen Corp.	167,336	4,518,072			
<b>Consumer Staples 4.4%</b>					
<b>Food &amp; Drug Retailing 0.7%</b>					
B&G Foods, Inc.*	265,600	3,978,688			
<b>Food Products 1.9%</b>					
Chiquita Brands International, Inc.*	203,000	4,478,180			
Ralcorp Holdings, Inc.	129,700	5,438,321			
		<b>9,916,501</b>			
<b>Personal Products 1.0%</b>					
Helen of Troy Ltd.*	157,100	5,280,131			
<b>Tobacco 0.8%</b>					
Universal Corp.	47,500	2,272,400			
Vector Group Ltd.	126,176	2,098,307			
		<b>4,370,707</b>			
<b>Energy 6.3%</b>					
<b>Energy Equipment &amp; Services 3.2%</b>					
Atwood Oceanics, Inc.*	46,200	2,407,020			
Grant Prideco, Inc.*	175,800	3,524,790			
Grey Wolf, Inc.*	116,000	611,320			
Offshore Logistics, Inc.*	74,500	2,419,015			
Oil States International, Inc.*	156,800	3,024,672			
Patterson-UTI Energy, Inc.	168,300	3,273,435			
Superior Energy Services, Inc.*	151,700	2,337,697			
		<b>17,597,949</b>			
<b>Oil &amp; Gas 3.1%</b>					
ATP Oil & Gas Corp.*	128,300	2,383,814			
Denbury Resources, Inc.*	99,400	2,728,530			
Energy Partners Ltd.*	84,600	1,714,842			
Global Industries, Inc.*	307,800	2,551,662			
Magnum Hunter Resources, Inc.*	75,300	971,370			
Penn Virginia Corp.	59,300	2,405,801			
Pioneer Drilling Co.*	375,500	3,788,795			
					<b>16,544,814</b>
<b>Financials 26.6%</b>					
<b>Banks 8.1%</b>					
BankAtlantic Bancorp., Inc. "A"	83,450	1,660,655			
Capital Bancorp., Ltd.	39,900	1,405,278			
Centennial Bank Holdings, Inc.*	400,000	4,200,000			
Center Financial Corp.	118,200	2,366,364			
FirstFed Financial Corp.*	23,850	1,237,100			
Glacier Bancorp., Inc.	58,156	1,979,630			
Greater Bay Bancorp.	108,100	3,013,828			
Independence Community Bank Corp.	66,500	2,831,570			
IndyMac Bancorp., Inc.	66,850	2,302,983			
International Bancshares Corp.	53,148	2,092,968			
NewAlliance Bancshares, Inc.	78,100	1,194,930			
Oriental Finance Group, Inc.	57,640	1,631,788			
PFF Bancorp., Inc.	66,100	3,062,413			
Provident Bankshares Corp.	97,550	3,547,894			
R & G Financial Corp. "B"	119,800	4,657,824			
S&T Bancorp, Inc.	26,300	991,247			
Sterling Financial Corp.	74,682	2,932,015			
Webster Financial Corp.	43,200	2,187,648			
					<b>43,296,135</b>
<b>Diversified Financial Services 2.1%</b>					
ACE Cash Express, Inc.*	105,400	3,126,164			
CMET Finance Holdings, Inc.*	7,200	648,000			
JER Investment Trust, Inc. 144A*	149,900	2,263,490			
Peoples Choice Financial Corp.	229,900	2,299,000			
Prospect Energy Corp.	254,500	3,054,000			
					<b>11,390,654</b>
<b>Insurance 5.5%</b>					
Ceres Group, Inc.*	259,390	1,338,452			
Endurance Specialty Holdings Ltd.	100,900	3,450,780			
Meadowbrook Insurance Group, Inc.*	476,500	2,377,735			
PMA Capital Corp. "A"*	139,200	1,440,720			
ProCentury Corp.	336,700	4,175,080			
PXRE Group Ltd.	18,600	468,906			
Scottish Re Group Ltd.	251,300	6,508,670			
Selective Insurance Group, Inc.	125,700	5,560,968			
Specialty Underwriters' Alliance, Inc.*	269,500	2,560,250			
Tower Group, Inc.	146,300	1,755,600			
					<b>29,637,161</b>
<b>Real Estate 10.9%</b>					
Aames Investment Corp. (REIT)*	221,900	2,374,330			
Capital Lease Funding, Inc. (REIT)	232,300	2,903,750			
Feldman Mall Properties, Inc. (REIT)*	76,500	995,265			
Fieldstone Investment Corp. (REIT)	386,700	6,500,427			
Highland Hospitality Corp. (REIT)	62,500	702,500			
KKR Financial Corp. (REIT) 144A	982,300	10,314,150			
Medical Properties of America (REIT)	109,300	1,120,325			

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

	Shares	Value (\$)		Shares	Value (\$)
Newcastle Investment Corp. (REIT)	266,200	8,459,836	WCA Waste Corp.*	467,800	4,888,510
Novastar Financial, Inc. (REIT)	289,800	14,345,100			<b>13,144,588</b>
Provident Senior Living Trust (REIT) 144A	392,800	6,284,800	<b>Construction &amp; Engineering 2.7%</b>		
Saxon Capital, Inc. (REIT)	66,900	1,604,931	EMCOR Group, Inc.*	78,200	3,533,076
Thomas Properties Group, Inc.*	250,000	3,185,000	Infrasource Services, Inc.*	305,300	3,968,900
		<b>58,790,414</b>	URS Corp.*	217,000	6,965,700
					<b>14,467,676</b>
<b>Health Care 9.6%</b>			<b>Electrical Equipment 1.7%</b>		
<b>Biotechnology 2.6%</b>			General Cable Corp.*	447,700	6,200,645
Axonyx, Inc.*	471,100	2,920,820	Genlyte Group, Inc.*	31,800	2,724,624
Charles River Laboratories International, Inc.*	142,400	6,551,824			<b>8,925,269</b>
Ciphergen Biosystems, Inc.	28,500	122,550	<b>Machinery 3.0%</b>		
Serologicals Corp.*	200,200	4,428,424	AGCO Corp.*	125,600	2,749,384
		<b>14,023,618</b>	Albany International Corp. "A"	72,500	2,549,100
<b>Health Care Equipment &amp; Supplies 1.2%</b>			Briggs & Stratton Corp.	52,600	2,187,108
Fisher Scientific International, Inc.*	49,560	3,091,553	Harsco Corp.	44,400	2,474,856
Zoll Medical Corp.*	92,500	3,182,000	Oshkosh Truck Corp.	51,400	3,514,732
		<b>6,273,553</b>	Valmont Industries	112,400	2,822,364
					<b>16,297,544</b>
<b>Health Care Providers &amp; Services 4.3%</b>			<b>Marine 0.9%</b>		
Accredo Health, Inc.*	109,800	3,043,656	GulfMark Offshore, Inc.*	39,100	870,757
Allied Healthcare International, Inc.*	439,000	2,414,500	Hornbeck Offshore Services, Inc.*	57,700	1,113,610
LabOne, Inc.*	87,500	2,803,500	OMI Corp.	63,600	1,071,660
Odyssey Healthcare, Inc.*	255,200	3,491,136	Tsakos Energy Navigation Ltd.	51,300	1,836,027
Pediatrix Medical Group, Inc.*	42,600	2,728,530			<b>4,892,054</b>
Province Healthcare Co.*	190,400	4,255,440	<b>Road &amp; Rail 2.4%</b>		
TLC Vision Corp.*	103,500	1,079,505	Genesee & Wyoming, Inc.*	114,950	3,233,543
Triad Hospitals, Inc.*	89,300	3,322,853	Laidlaw International, Inc.*	186,400	3,988,960
		<b>23,139,120</b>	RailAmerica, Inc.*	168,100	2,193,705
<b>Pharmaceuticals 1.5%</b>			Yellow Roadway Corp.*	58,207	3,242,712
King Pharmaceuticals, Inc.*	173,200	2,147,680			<b>12,658,920</b>
Par Pharmaceutical Cos., Inc.*	150,500	6,227,690	<b>Trading Companies Distributors 0.4%</b>		
		<b>8,375,370</b>	WESCO International, Inc.*	76,600	2,270,424
<b>Industrials 20.5%</b>			<b>Information Technology 4.6%</b>		
<b>Aerospace &amp; Defense 5.3%</b>			<b>Communications Equipment 0.7%</b>		
CAE, Inc.	595,600	2,531,300	PC-Tel, Inc.*	280,300	2,222,779
Curtiss-Wright Corp.	52,200	2,996,802	SpectraLink Corp.	80,600	1,142,908
DRS Technologies, Inc.*	81,200	3,468,052			<b>3,365,687</b>
GenCorp, Inc.	193,000	3,584,010	<b>Computers &amp; Peripherals 1.7%</b>		
Herley Industries, Inc.*	141,800	2,884,212	Applied Films Corp.*	98,100	2,115,036
Precision Castparts Corp.	107,000	7,027,760	Covansys Corp.*	95,800	1,465,740
Triumph Group, Inc.*	68,000	2,686,000	CyberGuard Corp.*	234,400	1,476,720
United Defense Industries, Inc.*	66,100	3,123,225	Komag, Inc.*	114,200	2,144,676
		<b>28,301,361</b>	Stratasys, Inc.*	59,100	1,983,396
					<b>9,185,568</b>
<b>Building Products 1.7%</b>			<b>Electronic Equipment &amp; Instruments 1.3%</b>		
Levitt Corp. "A"	169,500	5,181,615	KEMET Corp.*	59,200	529,840
NCI Building Systems, Inc.*	60,900	2,283,750	Scansource, Inc.*	40,900	2,542,344
York International Corp.	52,000	1,796,080	Vishay Intertechnology, Inc.*	264,000	3,965,280
		<b>9,261,445</b>			<b>7,037,464</b>
<b>Commercial Services &amp; Supplies 2.4%</b>			<b>IT Consulting &amp; Services 0.6%</b>		
Consolidated Graphics, Inc.*	63,900	2,933,010	BISYS Group, Inc.*	91,200	1,500,240
Duratek, Inc.*	115,100	2,867,141	CACI International, Inc. "A"*	26,800	1,825,884
John H. Harland Co.	59,500	2,147,950			<b>3,326,124</b>
Nobel Learning Communities, Inc.*	40,900	307,977			

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

	Shares	Value (\$)
<b>Semiconductors &amp; Semiconductor Equipment 0.3%</b>		
MKS Instruments, Inc.*	90,500	1,678,775
<b>Materials 9.1%</b>		
<b>Chemicals 2.0%</b>		
Georgia Gulf Corp.	50,700	2,524,860
NOVA Chemicals Corp.	70,400	3,329,920
Sensient Technologies Corp.	200,100	4,800,399
		<b>10,655,179</b>
<b>Construction Materials 1.9%</b>		
Florida Rock Industries, Inc.	73,695	4,387,063
Headwaters, Inc.*	211,600	6,030,600
		<b>10,417,663</b>
<b>Metals &amp; Mining 5.2%</b>		
AK Steel Holding Corp.*	258,100	3,734,707
Aleris International, Inc.*	133,800	2,263,896
Cleveland-Cliffs, Inc.	62,100	6,449,706
Metal Management, Inc.	176,000	4,729,120
Pan American Silver Corp.*	202,500	3,235,950
Steel Technologies, Inc.	76,600	2,107,266
Uranium Resources, Inc.*	1,020,400	739,790
Wheaton River Minerals Ltd.*	706,200	2,302,212
Worthington Industries, Inc.	107,000	2,095,060
		<b>27,657,707</b>
<b>Utilities 7.3%</b>		
<b>Electric Utilities 2.4%</b>		
Allegheny Energy, Inc.*	181,700	3,581,307
Ormat Technologies, Inc.*	124,600	2,028,488
Sierra Pacific Resources*	210,600	2,211,300
TECO Energy, Inc.	129,500	1,986,530
WPS Resources Corp.	65,000	3,247,400
		<b>13,055,025</b>
<b>Gas Utilities 1.5%</b>		
Southern Union Co.*	341,500	8,189,170
<b>Multi-Utilities 1.4%</b>		
CMS Energy Corp.*	315,100	3,292,795

	Shares	Value (\$)
ONEOK, Inc.	146,000	4,149,320
		<b>7,442,115</b>
<b>Multi-Utilities &amp; Unregulated Power 2.0%</b>		
Reliant Energy, Inc.*	779,600	10,641,540
<b>Total Common Stocks (Cost \$383,239,005)</b>		<b>506,545,129</b>
	<b>Principal Amount (\$)</b>	<b>Value (\$)</b>
<b>Corporate Bonds 0.8%</b>		
<b>Utilities</b>		
Mirant Corp. 144A, 7.9%, 7/15/2009* (Cost \$3,522,500)	6,000,000	4,470,000
	<b>Shares</b>	<b>Value (\$)</b>
<b>Convertible Preferred Stocks 0.3%</b>		
<b>Energy</b>		
Petrohawk Energy Corp., Series B (Cost \$1,650,750)	21,300	1,656,075
<b>Closed-End Investment Company 0.7%</b>		
Tortoise Energy Infrastructure Corp. (Cost \$3,584,863)	143,236	3,930,396
<b>Cash Equivalents 3.3%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$17,642,655)	17,642,655	17,642,655
	<b>% of Net Assets</b>	<b>Value (\$)</b>
<b>Total Investment Portfolio</b> (Cost \$409,639,773) (a)	99.3	534,244,255
<b>Other Assets and Liabilities, Net</b>	0.7	3,364,510
<b>Net Assets</b>	100.0	537,608,765

### Notes to SVS Dreman Small Cap Value 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.

Security	Coupon	Maturity Date	Principal Amount	Acquisition Cost	Value
Mirant Corp.	7.9	7/15/2009	USD 6,000,000	\$ 3,522,500	\$ 4,470,000

- (a) The cost for federal income tax purposes was \$409,796,640. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$124,447,615. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$127,387,394 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$2,939,779.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

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

REIT: Real Estate Investment Trust

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$391,997,118)	\$ 516,601,600
Investment in Scudder Cash Management QP Trust (cost \$17,642,655)	17,642,655
Total investments in securities, at value (cost \$409,639,773)	534,244,255
Receivable for investments sold	12,567,786
Dividends receivable	1,454,630
Interest receivable	38,412
Receivable for Portfolio shares sold	67,817
Other assets	13,625
<b>Total assets</b>	<b>548,386,525</b>

### Liabilities

Due to custodian bank	1,030,803
Payable for investments purchased	8,574,285
Payable for Portfolio shares redeemed	742,149
Accrued management fee	329,048
Other accrued expenses and payables	101,475
Total liabilities	10,777,760
<b>Net assets, at value</b>	<b>\$ 537,608,765</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income (loss)	3,681,177
Net unrealized appreciation (depreciation) on:	
Investments	124,604,482
Foreign currency related transactions	(68)
Accumulated net realized gain (loss)	46,974,310
Paid-in capital	362,348,864
<b>Net assets, at value</b>	<b>\$ 537,608,765</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$466,945,435 ÷ 23,288,245 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 20.05</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$70,663,330 ÷ 3,531,644 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 20.01</b>
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## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$17,277)	\$ 7,432,575
Interest — Scudder Cash Management QP Trust	273,301
<b>Total Income</b>	<b>7,705,876</b>
Expenses:	
Management fee	3,317,899
Custodian fees	27,459
Distribution service fees (Class B)	128,313
Record keeping fees (Class B)	65,640
Auditing	42,161
Legal	21,003
Trustees' fees and expenses	4,562
Reports to shareholders	57,119
Other	14,070
Total expenses, before expense reductions	3,678,226
Expense reductions	(6,710)
Total expenses, after expense reductions	3,671,516
<b>Net investment income (loss)</b>	<b>4,034,360</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	63,111,613
Foreign currency related transactions	406
	63,112,019
Net unrealized appreciation (depreciation) during the period on:	
Investments	38,865,035
Foreign currency related transactions	(68)
	38,864,967
<b>Net gain (loss) on investment transactions</b>	<b>101,976,986</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 106,011,346</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 4,034,360	\$ 4,178,048
Net realized gain (loss) on investment transactions	63,112,019	(4,032,299)
Net unrealized appreciation (depreciation) on investment transactions during the period	38,864,967	106,909,012
Net increase (decrease) in net assets resulting from operations	106,011,346	107,054,761
Distributions to shareholders from:		
Net investment income		
Class A	(3,405,170)	(2,962,485)
Class B	(212,277)	(46,780)
Net realized gains		
Class A	—	(3,977,032)
Class B	—	(77,506)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	64,900,813	59,877,343
Reinvestment of distributions	3,405,170	6,939,517
Cost of shares redeemed	(45,290,684)	(56,654,673)
Net increase (decrease) in net assets from Class A share transactions	23,015,299	10,162,187
<b>Class B</b>		
Proceeds from shares sold	29,315,151	24,979,856
Reinvestment of distributions	212,277	124,286
Cost of shares redeemed	(3,011,503)	(824,618)
Net increase (decrease) in net assets from Class B share transactions	26,515,925	24,279,524
<b>Increase (decrease) in net assets</b>	<b>151,925,123</b>	<b>134,432,669</b>
Net assets at beginning of period	385,683,642	251,250,973
Net assets at end of period (including undistributed net investment income of \$3,681,177 and \$3,552,152, respectively)	\$ <b>537,608,765</b>	\$ <b>385,683,642</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	22,038,819	21,449,028
Shares sold	3,660,918	4,545,529
Shares issued to shareholders in reinvestment of distributions	197,059	650,376
Shares redeemed	(2,608,551)	(4,606,114)
Net increase (decrease) in Portfolio shares	1,249,426	589,791
Shares outstanding at end of period	<b>23,288,245</b>	<b>22,038,819</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,977,912	98,769
Shares sold	1,706,542	1,921,031
Shares issued to shareholders in reinvestment of distributions	12,277	11,637
Shares redeemed	(165,087)	(53,525)
Net increase (decrease) in Portfolio shares	1,553,732	1,879,143
Shares outstanding at end of period	<b>3,531,644</b>	<b>1,977,912</b>

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



# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 16.06	\$ 11.66	\$ 13.21	\$ 11.23	\$ 10.85
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.17	.19	.17	.09	.02
Net realized and unrealized gain (loss) on investment transactions	3.98	4.55	(1.67)	1.89	.42
<b>Total from investment operations</b>	<b>4.15</b>	<b>4.74</b>	<b>(1.50)</b>	<b>1.98</b>	<b>.44</b>
<i>Less distributions from:</i>					
Net investment income	(.16)	(.15)	(.05)	—	(.06)
Net realized gains on investment transactions	—	(.19)	—	—	—
<b>Total distributions</b>	<b>(.16)</b>	<b>(.34)</b>	<b>(.05)</b>	<b>—</b>	<b>(.06)</b>
<b>Net asset value, end of period</b>	<b>\$ 20.05</b>	<b>\$ 16.06</b>	<b>\$ 11.66</b>	<b>\$ 13.21</b>	<b>\$ 11.23</b>
Total Return (%)	26.03	42.15	(11.43)	17.63	4.05
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	467	354	250	194	84
Ratio of expenses (%)	.79	.80	.81	.79	.82
Ratio of net investment income (loss) (%)	.96	1.46	1.28	.77	.15
Portfolio turnover rate (%)	73	71	86	57	36

<sup>a</sup> On June 18, 2001, the Portfolio implemented 1 for 10 reverse stock split. Per share information, for the period 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

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 16.03	\$ 11.65	\$ 13.86
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.10	.13	.17
Net realized and unrealized gain (loss) on investment transactions	3.97	4.56	(2.38)
<b>Total from investment operations</b>	<b>4.07</b>	<b>4.69</b>	<b>(2.21)</b>
<i>Less distributions from:</i>			
Net investment income	(.09)	(.12)	—
Net realized gains on investment transactions	—	(.19)	—
<b>Total distributions</b>	<b>(.09)</b>	<b>(.31)</b>	<b>—</b>
<b>Net asset value, end of period</b>	<b>\$ 20.01</b>	<b>\$ 16.03</b>	<b>\$ 11.65</b>
Total Return (%)	25.52	41.65	(15.95)**
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	71	32	1
Ratio of expenses (%)	1.16	1.19	1.06*
Ratio of net investment income (loss) (%)	.59	1.07	3.01*
Portfolio turnover rate (%)	73	71	86

<sup>a</sup> For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2003.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

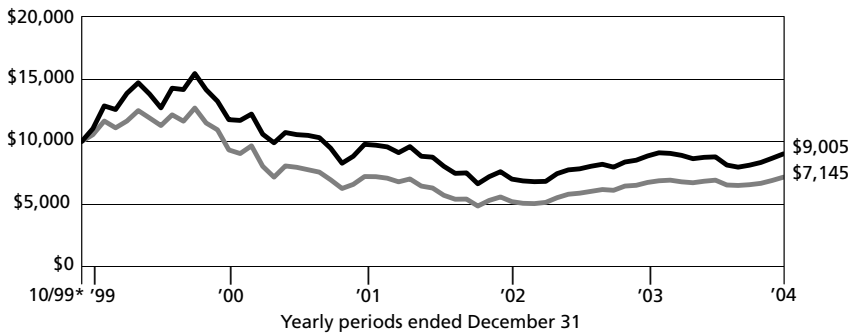
## SVS Eagle Focused Large Cap Growth Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please see this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in SVS Eagle Focused Large Cap Growth Portfolio from 10/29/1999 to 12/31/2004

- SVS Eagle Focused Large Cap Growth Portfolio — Class A
- Russell 1000 Growth Index



The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

SVS Eagle Focused Large Cap Growth Portfolio	1-Year	3-Year	5-Year	Life of Portfolio*
<b>Class A</b>				
Growth of \$10,000	\$10,185	\$9,282	\$7,013	\$9,005
Average annual total return	1.85%	-2.45%	-6.85%	-2.01%
<b>Russell 1000 Growth Index</b>				
Growth of \$10,000	\$10,630	\$9,946	\$6,140	\$7,145
Average annual total return	6.30%	-1.18%	-9.29%	-6.30%
SVS Eagle Focused Large Cap Growth Portfolio	1-Year	Life of Class**		
<b>Class B</b>				
Growth of \$10,000	\$10,151	\$11,459		
Average annual total return	1.51%	5.59%		
<b>Russell 1000 Growth Index</b>				
Growth of \$10,000	\$10,630	\$12,555		
Average annual total return	6.30%	9.53%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on October 29, 1999. Index returns begin October 31, 1999. Total returns would have been lower for the 5-Year and Life of Portfolio periods for Class A shares if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## SVS Eagle Focused Large Cap Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the

period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

<b>Actual Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,026.90	\$ 1,024.70
Expenses Paid per \$1,000*	\$ 5.15	\$ 7.04

<b>Hypothetical 5% Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,020.12	\$ 1,018.25
Expenses Paid per \$1,000*	\$ 5.14	\$ 7.02

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

<b>Annualized Expense Ratios</b>	<b>Class A</b>	<b>Class B</b>
Scudder Variable Series II — SVS Eagle Focused Large Cap Growth Portfolio	1.01%	1.38%

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

## SVS Eagle Focused Large Cap Growth Portfolio

The portfolio was up 1.85% (Class A shares, unadjusted for contract charges) for the 12-month period ended December 31, 2004 while the benchmark Russell 1000 Growth Index was up 6.30%. The portfolio's relative underperformance for the year was attributable primarily to an overweighting in poorly performing semiconductor and media stocks. Fairchild Semiconductor International, Inc. and Intel Corp. were a drag on performance, as the semiconductor industry saw strong year-over-year revenue growth but lagging stock prices. In other areas of technology, Dell, Inc. and Microsoft Corp. were positive contributors to relative performance. In the consumer discretionary sector, positive contributions from eBay, Inc., Yahoo!, Inc. and Harrah's Entertainment, Inc. were not enough to overcome losses in Coca-Cola Co. and media companies Viacom, Inc. and Clear Channel Communications\*. During the year, advertising dollars continued to migrate from traditional media companies (cable, newspapers, radio and television) to nontraditional media companies, which were more adept at leveraging the Internet, such as eBay. We strategically shifted assets out of traditional and into nontraditional media names. On the positive side, strength in financial services was led by CheckFree Corp., which benefited from strong reported earnings and increasing traction in sales of its financial products. Caremark Rx, Inc. and Genzyme Corp. bolstered the solid performance of the portfolio's health care holdings, as both companies improved their growth prospects via smart acquisitions. The global economy looks poised for what we expect will be continued and solid expansion in 2005, though the balance between inflation and growth remains a risk. We believe that solid top-line growth and high stable profit margins should drive earnings growth over the next year.

Ashi Parikh

Duane Eatherly

Portfolio Managers

Eagle Asset Management, Inc., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please see this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

\* Not held in the portfolio at the end of the reporting period.

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## SVS Eagle Focused Large Cap Growth Portfolio

<b>Asset Allocation</b>	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	98%	99%
Cash Equivalents	2%	1%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents)	<b>12/31/04</b>	<b>12/31/03</b>
Information Technology	41%	39%
Consumer Discretionary	23%	23%
Health Care	17%	15%
Consumer Staples	7%	3%
Financials	6%	11%
Industrials	6%	9%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 199. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Eagle Focused Large Cap Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 97.8%</b>					
<b>Consumer Discretionary 22.0%</b>					
<b>Hotels Restaurants &amp; Leisure 5.6%</b>					
Harrah's Entertainment, Inc.	51,050	3,414,734			
McDonald's Corp.	100,200	3,212,412			
		<b>6,627,146</b>			
<b>Internet &amp; Catalog Retail 4.3%</b>					
eBay, Inc.*	43,900	5,104,692			
<b>Media 8.2%</b>					
Comcast Corp. "A"*	56,200	1,845,608			
EchoStar Communications Corp. "A"	74,750	2,484,690			
Time Warner, Inc.*	108,700	2,113,128			
Viacom, Inc. "B"	46,700	1,699,413			
Walt Disney Co.	58,100	1,615,180			
		<b>9,758,019</b>			
<b>Multiline Retail 2.0%</b>					
Target Corp.	46,200	2,399,166			
<b>Specialty Retail 1.8%</b>					
Home Depot, Inc.	50,725	2,167,987			
<b>Consumer Staples 6.5%</b>					
<b>Beverages 3.0%</b>					
Coca-Cola Co.	84,900	3,534,387			
<b>Food &amp; Drug Retailing 3.5%</b>					
Wal-Mart Stores, Inc.	78,900	4,167,498			
<b>Financials 6.2%</b>					
<b>Capital Markets 1.9%</b>					
Goldman Sachs Group, Inc.	22,100	2,299,284			
<b>Diversified Financial Services 2.0%</b>					
Citigroup, Inc.	48,466	2,335,092			
<b>Insurance 2.3%</b>					
American International Group, Inc.	42,250	2,774,557			
<b>Health Care 16.3%</b>					
<b>Biotechnology 2.2%</b>					
Genzyme Corp.*	45,600	2,647,992			
<b>Health Care Equipment &amp; Supplies 2.0%</b>					
Zimmer Holdings, Inc.*	29,950	2,399,594			
<b>Health Care Providers &amp; Services 2.5%</b>					
Caremark Rx, Inc.*	73,450	2,896,134			
<b>Pharmaceuticals 9.6%</b>					
Abbott Laboratories	43,200	2,015,280			
Allergan, Inc.	24,100	1,953,787			
Johnson & Johnson	48,000	3,044,160			
Pfizer, Inc.	162,200	4,361,558			
		<b>11,374,785</b>			
<b>Industrials 6.4%</b>					
<b>Electrical Equipment 2.5%</b>					
Emerson Electric Co.	41,600	2,916,160			
<b>Industrial Conglomerates 3.9%</b>					
General Electric Co.	127,250	4,644,625			
<b>Information Technology 40.4%</b>					
<b>Communications Equipment 4.5%</b>					
Cisco Systems, Inc.*	188,500	3,638,050			
Nokia Oyj (ADR)	110,900	1,737,803			
		<b>5,375,853</b>			
<b>Computers &amp; Peripherals 7.1%</b>					
Dell, Inc.*	154,650	6,516,951			
EMC Corp.*	128,300	1,907,821			
		<b>8,424,772</b>			
<b>Electronic Equipment &amp; Instruments 2.6%</b>					
Symbol Technologies, Inc.	176,900	3,060,370			
<b>Internet Software &amp; Services 2.9%</b>					
Yahoo!, Inc.*	91,450	3,445,836			
<b>IT Consulting &amp; Services 3.0%</b>					
CheckFree Corp.*	40,250	1,532,720			
First Data Corp.	47,950	2,039,793			
		<b>3,572,513</b>			
<b>Semiconductors &amp; Semiconductor Equipment 13.2%</b>					
Broadcom Corp. "A"*	121,200	3,912,336			
Fairchild Semiconductor International, Inc.*	88,400	1,437,384			
Intel Corp.	144,250	3,374,007			
Maxim Integrated Products, Inc.	56,600	2,399,274			
National Semiconductor Corp.*	125,500	2,252,725			
Texas Instruments, Inc.	89,650	2,207,183			
		<b>15,582,909</b>			
<b>Software 7.1%</b>					
Microsoft Corp.	219,100	5,852,161			
Symantec Corp.*	97,100	2,501,296			
		<b>8,353,457</b>			
<b>Total Common Stocks (Cost \$101,267,812)</b>				<b>115,862,828</b>	
<b>Cash Equivalents 2.6%</b>					
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$3,050,051)	3,050,051	3,050,051			
			<b>% of Net Assets</b>	<b>Value (\$)</b>	
<b>Total Investment Portfolio (Cost \$104,317,863) (a)</b>			100.4	<b>118,912,879</b>	
<b>Other Assets and Liabilities, Net</b>			(0.4)	<b>(499,845)</b>	
<b>Net Assets</b>			100.0	<b>118,413,034</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 \$107,342,716. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$11,570,163. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$14,639,514 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$3,069,351.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

ADR: American Depositary Receipts

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$101,267,812)	\$ 115,862,828
Investment in Scudder Cash Management QP Trust (cost \$3,050,051)	3,050,051
Total investments in securities, at value (cost \$104,318,934)	118,912,879
Dividends receivable	66,118
Interest receivable	4,031
Receivable for investments sold	1,376,012
Receivable for Portfolio shares sold	36,708
Other assets	4,231
<b>Total assets</b>	<b>120,399,979</b>

### Liabilities

Payable for Portfolio shares redeemed	97,405
Payable for investments purchased	1,723,549
Accrued management fee	75,993
Other accrued expenses and payables	89,998
Total liabilities	1,986,945
<b>Net assets, at value</b>	<b>\$ 118,413,034</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	404,661
Net unrealized appreciation (depreciation) on investments	14,595,016
Accumulated net realized gain (loss)	(26,027,743)
Paid-in capital	129,441,100
<b>Net assets, at value</b>	<b>\$ 118,413,034</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$87,519,374 ÷ 9,955,815 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 8.79</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$30,893,660 ÷ 3,544,097 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 8.72</b>
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## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends	\$ 1,576,944
Securities lending income, including income from Daily Assets Fund Institutional	1,104
Interest — Scudder Cash Management QP Trust	35,449
<b>Total Income</b>	<b>1,613,497</b>
Expenses:	
Management fee	945,157
Custodian and accounting fees	82,602
Distribution service fees (Class B)	60,991
Record keeping fees (Class B)	31,879
Auditing	53,771
Legal	14,279
Trustees' fees and expenses	1,913
Reports to shareholders	13,378
Other	6,345
Total expenses, before expense reductions	1,210,315
Expense reductions	(1,550)
Total expenses, after expense reductions	1,208,765
<b>Net investment income (loss)</b>	<b>404,732</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(164,658)
Net unrealized appreciation (depreciation) during the period on investments	2,143,613
<b>Net gain (loss) on investment transactions</b>	<b>1,978,955</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 2,383,687</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 404,732	\$ (51,955)
Net realized gain (loss) on investment transactions	(164,658)	2,310,457
Net unrealized appreciation (depreciation) on investment transactions during the period	2,143,613	16,392,143
Net increase (decrease) in net assets resulting from operations	2,383,687	18,650,645
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	12,090,841	13,012,448
Cost of shares redeemed	(9,834,816)	(8,293,606)
Net increase (decrease) in net assets from Class A share transactions	2,256,025	4,718,842
<b>Class B</b>		
Proceeds from shares sold	17,731,434	12,484,580
Cost of shares redeemed	(2,263,054)	(113,785)
Net increase (decrease) in net assets from Class B share transactions	15,468,380	12,370,795
<b>Increase (decrease) in net assets</b>	<b>20,108,092</b>	<b>35,740,282</b>
Net assets at beginning of period	98,304,942	62,564,660
Net assets at end of period (including undistributed net investment income and accumulated net investment loss of \$404,661 and \$71, respectively)	<b>\$ 118,413,034</b>	<b>\$ 98,304,942</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	9,695,116	9,100,995
Shares sold	1,445,596	1,735,087
Shares redeemed	(1,184,897)	(1,140,966)
Net increase (decrease) in Portfolio shares	260,699	594,121
Shares outstanding at end of period	<b>9,955,815</b>	<b>9,695,116</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,703,581	77,032
Shares sold	2,112,493	1,642,289
Shares redeemed	(271,977)	(15,740)
Net increase (decrease) in Portfolio shares	1,840,516	1,626,549
Shares outstanding at end of period	<b>3,544,097</b>	<b>1,703,581</b>

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



# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
<b>Net asset value, beginning of period</b>	<b>\$ 8.63</b>	<b>6.82</b>	<b>\$ 9.46</b>	<b>\$ 11.40</b>	<b>\$ 12.84</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.04	—*	(.01)	(.02)	(.05)
Net realized and unrealized gain (loss) on investment transactions	.12	1.81	(2.63)	(1.92)	(1.04)
<b>Total from investment operations</b>	<b>.16</b>	<b>1.81</b>	<b>(2.64)</b>	<b>(1.94)</b>	<b>(1.09)</b>
<i>Less distributions from:</i>					
Net realized gains on investment transactions	—	—	—	—	(.35)
<b>Net asset value, end of period</b>	<b>\$ 8.79</b>	<b>\$ 8.63</b>	<b>\$ 6.82</b>	<b>\$ 9.46</b>	<b>\$ 11.40</b>
Total Return (%)	1.85	26.54	(27.91)	(17.02)	(9.02) <sup>c</sup>

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	88	84	62	60	28
Ratio of expenses before expense reductions (%)	1.05	1.10	1.03	1.13	1.33
Ratio of expenses after expense reductions (%)	1.04	1.10	1.03	1.11	1.02
Ratio of net investment income (loss) (%)	.47	(.04)	(.08)	(.21)	(.37)
Portfolio turnover rate (%)	90	143	123	98	323

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period 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.

<sup>c</sup> Total return would have been lower had certain expenses not been reduced.

\* Amount is less than \$.005.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
<b>Net asset value, beginning of period</b>	<b>\$ 8.59</b>	<b>\$ 6.81</b>	<b>\$ 7.61</b>
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.01	(.04)	.01
Net realized and unrealized gain (loss) on investment transactions	.12	1.82	(.81)
<b>Total from investment operations</b>	<b>.13</b>	<b>1.78</b>	<b>(.80)</b>
<b>Net asset value, end of period</b>	<b>\$ 8.72</b>	<b>\$ 8.59</b>	<b>\$ 6.81</b>
Total Return (%)	1.51	26.14	(10.51)**

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	31	15	.5
Ratio of expenses (%)	1.42	1.49	1.30*
Ratio of net investment income (loss) (%)	.09	(.43)	.21*
Portfolio turnover rate (%)	90	143	123

<sup>a</sup> For the period July 1, 2002 (commencement of operations 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

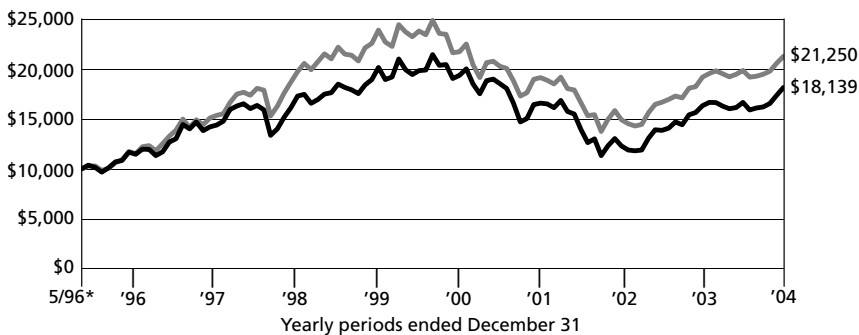
All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk. It is non-diversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in SVS Focus Value+Growth Portfolio from 5/1/1996 to 12/31/2004

■ SVS Focus Value+Growth 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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

SVS Focus Value+Growth Portfolio	1-Year	3-Year	5-Year	Life of Portfolio*
<b>Class A</b>				
Growth of \$10,000	\$11,116	\$10,946	\$9,009	\$18,139
Average annual total return	11.16%	3.06%	-2.06%	7.11%
<b>S&amp;P 500 Index</b>				
Growth of \$10,000	\$11,088	\$11,115	\$8,902	\$21,250
Average annual total return	10.88%	3.59%	-2.30%	9.09%
<b>SVS Focus Value+Growth Portfolio</b>			<b>1-Year</b>	<b>Life of Class**</b>
<b>Class B</b>				
Growth of \$10,000			\$11,082	\$13,155
Average annual total return			10.82%	11.58%
<b>S&amp;P 500 Index</b>				
Growth of \$10,000			\$11,088	\$12,800
Average annual total return			10.88%	10.38%

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 1996. Index returns begin April 30, 1996.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## SVS Focus Value+Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

<b>Actual Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,089.50	\$ 1,088.00
Expenses Paid per \$1,000*	\$ 4.24	\$ 6.23

<b>Hypothetical 5% Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,021.14	\$ 1,019.24
Expenses Paid per \$1,000*	\$ 4.11	\$ 6.03

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

<b>Annualized Expense Ratios</b>	<b>Class A</b>	<b>Class B</b>
Scudder Variable Series II — SVS Focus Value+Growth Portfolio	.81%	1.18%

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

## SVS Focus Value+Growth Portfolio

We are pleased to announce that in the 12-month period ended December 31, 2004 the portfolio (Class A shares, unadjusted for contract charges) posted a total return 11.16%, versus a 10.88% return by the S&P 500 index.

The period proved difficult for the portfolio's value holdings. In a highly concentrated portfolio, such as this, severe losses among core holdings can be very damaging. In this case, gains in the portfolio's largest position — Freddie Mac — and of top-10 holdings, including UST, Inc. and Altria Group, Inc. were not enough to offset losses sustained by Fannie Mae and Pfizer, Inc. which faced scrutiny during the period. Mortgage provider Fannie Mae declined when its accounting practices came under investigation and were deemed improper by the SEC. Pfizer, Inc. plummeted after clinical studies suggested that osteoarthritis drug, Celebrex, might increase the cardiovascular risks when taken in large doses. While we're disappointed in the events that led to the declines in these holdings, we believe they are temporary setbacks. We continue to hold both stocks.

The portfolio's growth sleeve performed well with every sector posting positive returns for the year. Consumer discretionary stocks made the greatest contribution to overall performance. Among them was top-10 holding eBay, Inc., a provider of online auction services, which continued to benefit from market dominance and valuable brand recognition. Starbucks Corp. also aided performance with revenues and unit sales growth that exceeded expectations. Within the energy area, BJ Services Co.\*, rose in tandem with historically high oil prices and increased demand for drilling services. While the sleeve's technology sector advanced, several semiconductor stocks — Intel\* and Texas Instruments\* — produced negative returns as demand for semiconductors slowed, leading to inventory surpluses.

David N. Dreman  
F. James Hutchinson

Co-Managers  
Dreman Value Management L.L.C.  
(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)

*\*This holding was not held in the portfolio at the end of the reporting period.*

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. It is nondiversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## SVS Focus Value+Growth Portfolio

<b>Asset Allocation</b>	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	99%	96%
Cash Equivalents	1%	4%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	28%	30%
Information Technology	21%	20%
Health Care	16%	15%
Consumer Staples	14%	8%
Consumer Discretionary	12%	18%
Industrials	4%	3%
Energy	3%	5%
Telecommunication Services	2%	—
Utilities	—	1%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 207. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Focus Value+Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 98.8%</b>					
<b>Consumer Discretionary 12.4%</b>					
<b>Hotels Restaurants &amp; Leisure 2.9%</b>					
Starbucks Corp.*	58,000	3,616,880			
<b>Internet &amp; Catalog Retail 3.7%</b>					
eBay, Inc.*	40,100	4,662,828			
<b>Multiline Retail 2.8%</b>					
Target Corp.	67,000	3,479,310			
<b>Specialty Retail 3.0%</b>					
Borders Group, Inc.	31,250	793,750			
Home Depot, Inc.	52,165	2,229,532			
Staples, Inc.	23,340	786,792			
		<b>3,810,074</b>			
<b>Consumer Staples 14.3%</b>					
<b>Food &amp; Drug Retailing 2.3%</b>					
Whole Foods Market, Inc.	30,200	2,879,570			
<b>Personal Products 2.4%</b>					
Estee Lauder Companies, Inc. "A"	67,200	3,075,744			
<b>Tobacco 9.6%</b>					
Altria Group, Inc.	111,100	6,788,210			
Reynolds American, Inc.	8,825	693,645			
UST, Inc.	94,920	4,566,601			
		<b>12,048,456</b>			
<b>Energy 3.2%</b>					
<b>Oil &amp; Gas</b>					
Apache Corp.	1,200	60,684			
Burlington Resources, Inc.	900	39,150			
ChevronTexaco Corp.	12,150	637,996			
ConocoPhillips	1,300	112,879			
Devon Energy Corp.	46,690	1,817,175			
EnCana Corp.	4,400	251,064			
Kerr-McGee Corp.	16,350	944,866			
Occidental Petroleum Corp.	3,099	180,858			
		<b>4,044,672</b>			
<b>Financials 27.7%</b>					
<b>Banks 7.1%</b>					
Bank of America Corp.	48,420	2,275,256			
PNC Financial Services Group	17,510	1,005,774			
Sovereign Bancorp, Inc.	48,810	1,100,666			
US Bancorp.	28,700	898,884			
Washington Mutual, Inc.	85,251	3,604,412			
		<b>8,884,992</b>			
<b>Capital Markets 2.8%</b>					
Merrill Lynch & Co., Inc.	59,300	3,544,361			
<b>Consumer Finance 2.6%</b>					
American Express Co.	59,300	3,342,741			
<b>Diversified Financial Services 14.0%</b>					
Fannie Mae	85,050	6,056,410			
Freddie Mac	112,150	8,265,455			
JPMorgan Chase & Co.	86,500	3,374,365			
		<b>17,696,230</b>			
<b>Insurance 1.2%</b>					
American International Group, Inc.	22,500	1,477,575			
<b>Health Care 15.4%</b>					
<b>Biotechnology 4.7%</b>					
Genentech, Inc.*	74,800	4,072,112			
Gilead Sciences, Inc.*	53,600	1,875,464			
		<b>5,947,576</b>			
<b>Health Care Equipment &amp; Supplies 0.5%</b>					
Becton, Dickinson & Co.	10,675	606,340			
<b>Health Care Providers &amp; Services 4.1%</b>					
AmerisourceBergen Corp.	15,050	883,134			
Cardinal Health, Inc.	5,750	334,363			
HCA, Inc.	20,875	834,165			
Laboratory Corp. of America Holdings*	23,890	1,190,200			
Medco Health Solutions, Inc.*	22,062	917,779			
Quest Diagnostics, Inc.	10,720	1,024,296			
		<b>5,183,937</b>			
<b>Pharmaceuticals 6.1%</b>					
Bristol Myers Squibb Co.	55,170	1,413,455			
Eli Lilly & Co.	35,600	2,020,300			
Merck & Co., Inc.	46,900	1,507,366			
Pfizer, Inc.	94,500	2,541,105			
Wyeth	5,525	235,310			
		<b>7,717,536</b>			
<b>Industrials 3.7%</b>					
<b>Industrial Conglomerates 3.7%</b>					
General Electric Co.	101,200	3,693,800			
Tyco International Ltd.	25,850	923,879			
		<b>4,617,679</b>			
<b>Information Technology 20.5%</b>					
<b>Computers &amp; Peripherals 2.8%</b>					
Apple Computer, Inc.*	54,800	3,529,120			
<b>Electronic Equipment &amp; Instruments 2.4%</b>					
Agilent Technologies, Inc.*	126,700	3,053,470			
<b>Internet Software &amp; Services 6.0%</b>					
Google, Inc. "A"*	18,700	3,610,970			
Yahoo!, Inc.*	104,000	3,918,720			
		<b>7,529,690</b>			
<b>IT Consulting &amp; Services 1.5%</b>					
Electronic Data Systems Corp.	82,525	1,906,328			
<b>Semiconductors &amp; Semiconductor Equipment 2.0%</b>					
Marvell Technology Group Ltd.*	71,100	2,521,917			
<b>Software 5.8%</b>					
Electronic Arts, Inc.*	63,700	3,929,016			
Microsoft Corp.	123,300	3,293,343			
		<b>7,222,359</b>			
<b>Telecommunication Services 1.6%</b>					
<b>Wireless Telecommunication Services</b>					
Nextel Communications, Inc. "A"*	67,000	2,010,000			
		<b>2,010,000</b>			
		<b>Total Common Stocks (Cost \$103,076,220)</b>			<b>124,409,385</b>

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

	Shares	Value (\$)
<b>Cash Equivalents 1.0%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$1,256,952)	1,256,952	1,256,952
	% of Net Assets	Value (\$)
<b>Total Investment Portfolio</b> (Cost \$104,333,172) (a)	99.8	125,666,337
<b>Other Assets and Liabilities, Net</b>	0.2	229,302
<b>Net Assets</b>	100.0	125,895,639

#### Notes to SVS Focus Value+Growth Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$104,426,153. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$21,240,184. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$24,483,278 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$3,243,094.

(b) Scudder Cash Management QP Trust is 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, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$103,076,220)	\$ 124,409,385
Investment in Scudder Cash Management QP Trust (cost \$1,256,952)	1,256,952
Total investments in securities, at value (cost \$104,333,172)	125,666,337
Cash	79,047
Receivable for investments sold	316,809
Dividends receivable	152,268
Interest receivable	2,706
Other assets	3,721
<b>Total assets</b>	<b>126,220,888</b>

### Liabilities

Payable for Portfolio shares redeemed	188,679
Accrued management fee	83,203
Other accrued expenses and payables	53,367
Total liabilities	325,249
<b>Net assets, at value</b>	<b>\$ 125,895,639</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	1,316,360
Net unrealized appreciation (depreciation) on investments	21,333,165
Accumulated net realized gain (loss)	(29,983,699)
Paid-in capital	133,229,813
<b>Net assets, at value</b>	<b>\$ 125,895,639</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$114,746,163 ÷ 8,194,607 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 14.00</b>
---	-----------------

### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$11,149,476 ÷ 798,374 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 13.97</b>
--	-----------------

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$66)	\$ 2,355,322
Interest — Scudder Cash Management QP Trust	28,530
Securities lending income, including income from Daily Assets Fund Institutional	213
<b>Total Income</b>	<b>2,384,065</b>
Expenses:	
Management fee	918,970
Custodian fees	15,016
Distribution service fees (Class B)	22,563
Record keeping fees (Class B)	12,161
Auditing	40,476
Legal	3,682
Reports to shareholders	10,424
Other	1,341
Total expenses, before expense reductions	1,024,633
Expense reductions	(1,623)
Total expenses, after expense reductions	1,023,010
<b>Net investment income (loss)</b>	<b>1,361,055</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	4,306,873
Futures	116,366
	4,423,239
Net unrealized appreciation (depreciation) during the period on:	
Investments	6,929,650
Futures	(64,159)
	6,865,491
<b>Net gain (loss) on investment transactions</b>	<b>11,288,730</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 12,649,785</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 1,361,055	\$ 1,010,016
Net realized gain (loss) on investment transactions	4,423,239	(762,388)
Net unrealized appreciation (depreciation) on investment transactions during the period	6,865,491	30,764,910
Net increase (decrease) in net assets resulting from operations	12,649,785	31,012,538
Distributions to shareholders from:		
Net investment income		
Class A	(964,388)	(861,563)
Class B	(34,623)	(12,687)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	6,603,416	11,072,613
Reinvestment of distributions	964,388	861,563
Cost of shares redeemed	(24,197,037)	(17,513,556)
Net increase (decrease) in net assets from Class A share transactions	(16,629,233)	(5,579,380)
<b>Class B</b>		
Proceeds from shares sold	4,462,355	5,121,184
Reinvestment of distributions	34,623	12,687
Cost of shares redeemed	(675,725)	(406,433)
Net increase (decrease) in net assets from Class B share transactions	3,821,253	4,727,438
<b>Increase (decrease) in net assets</b>	<b>(1,157,206)</b>	<b>29,286,346</b>
Net assets at beginning of period	127,052,845	97,766,499
Net assets at end of period (including undistributed net investment income of \$1,316,360 and \$954,315, respectively)	<b>\$ 125,895,639</b>	<b>\$ 127,052,845</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	9,513,858	10,089,997
Shares sold	516,151	983,070
Shares issued to shareholders in reinvestment of distributions	76,791	93,142
Shares redeemed	(1,912,193)	(1,652,351)
Net increase (decrease) in Portfolio shares	(1,319,251)	(576,139)
Shares outstanding at end of period	<b>8,194,607</b>	<b>9,513,858</b>
<b>Class B</b>		
Shares outstanding at beginning of period	495,365	39,304
Shares sold	352,824	491,329
Shares issued to shareholders in reinvestment of distributions	2,757	1,372
Shares redeemed	(52,572)	(36,640)
Net increase (decrease) in Portfolio shares	303,009	456,061
Shares outstanding at end of period	<b>798,374</b>	<b>495,365</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 12.70	\$ 9.65	\$ 13.08	\$ 16.55	\$ 18.96
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.14	.10	.08	.09	.12
Net realized and unrealized gain (loss) on investment transactions	1.27	3.04	(3.45)	(2.41)	(.73)
<b>Total from investment operations</b>	<b>1.41</b>	<b>3.14</b>	<b>(3.37)</b>	<b>(2.32)</b>	<b>(.61)</b>
<i>Less distributions from:</i>					
Net investment income	(.11)	(.09)	(.06)	(.10)	(.10)
Net realized gains on investment transactions	—	—	—	(1.05)	(1.70)
<b>Total distributions</b>	<b>(.11)</b>	<b>(.09)</b>	<b>(.06)</b>	<b>(1.15)</b>	<b>(1.80)</b>
<b>Net asset value, end of period</b>	<b>\$ 14.00</b>	<b>\$ 12.70</b>	<b>\$ 9.65</b>	<b>\$ 13.08</b>	<b>\$ 16.55</b>
Total Return (%)	11.16	32.87 <sup>c</sup>	(25.89)	(14.35)	(3.90)
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	115	121	97	140	153
Ratio of expenses before expense reductions (%)	.81	.85	.81	.79	.81
Ratio of expenses after expense reductions (%)	.81	.84	.81	.79	.81
Ratio of net investment income (loss) (%)	1.14	.96	.73	.64	.66
Portfolio turnover rate (%)	68	82	109	180	39

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period 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.

<sup>c</sup> Total returns would have been lower had certain expenses not been reduced.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 12.66	\$ 9.63	\$ 10.74
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.10	.05	.08
Net realized and unrealized gain (loss) on investment transactions	1.26	3.04	(1.19)
<b>Total from investment operations</b>	<b>1.36</b>	<b>3.09</b>	<b>(1.11)</b>
<i>Less distributions from:</i>			
Net investment income	(.05)	(.06)	—
<b>Net asset value, end of period</b>	<b>\$ 13.97</b>	<b>\$ 12.66</b>	<b>\$ 9.63</b>
Total Return (%)	10.82	32.39 <sup>c</sup>	(10.34) <sup>**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	11	6	.4
Ratio of expenses before expense reductions (%)	1.19	1.25	1.06*
Ratio of expenses after expense reductions (%)	1.19	1.24	1.06*
Ratio of net investment income (loss) (%)	.76	.56	1.64*
Portfolio turnover rate (%)	68	82	109

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

<sup>c</sup> Total returns would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

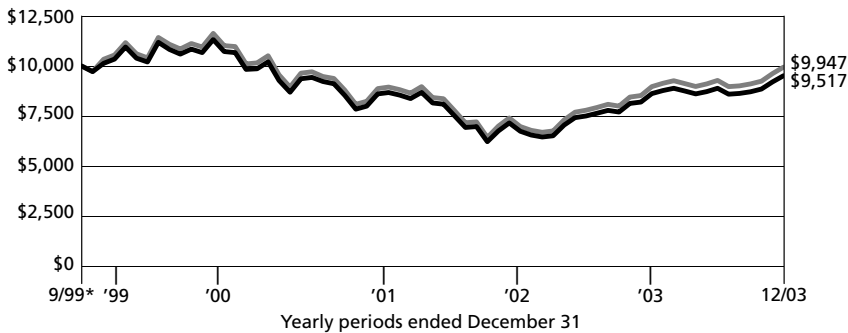
## SVS Index 500 Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, derivatives may be more volatile and less liquid than traditional securities and the Portfolio could suffer losses on its derivatives positions. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in SVS Index 500 Portfolio from 9/1/1999 to 12/31/2004

- 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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

SVS Index 500 Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$11,038	\$10,966	\$8,687	\$9,517
	Average annual total return	10.38%	3.12%	-2.78%	-.92%
S&P 500 Index	Growth of \$10,000	\$11,088	\$11,115	\$8,902	\$9,947
	Average annual total return	10.88%	3.59%	-2.30%	-.10%
SVS Index 500 Portfolio		1-Year	Life of Class**		
Class B	Growth of \$10,000	\$10,998	\$12,824		
	Average annual total return	9.98%	10.45%		
S&P 500 Index	Growth of \$10,000	\$11,088	\$12,800		
	Average annual total return	10.88%	10.38%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on September 1, 1999. Index returns begin August 31, 1999. Total returns would have been lower for the 3-Year and Life of Portfolio periods for Class A shares if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## SVS Index 500 Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, Class B shares of the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,070.40	\$ 1,068.20
Expenses Paid per \$1,000*	\$ 1.91	\$ 3.73
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,023.29	\$ 1,021.53
Expenses Paid per \$1,000*	\$ 1.87	\$ 3.65

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — SVS Index 500 Portfolio	.37%	.72%

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

## SVS Index 500 Portfolio

For the 12-month period ended December 31, 2004, the portfolio produced a total return of 10.38% (Class A shares, unadjusted for contract charges). The Standard & Poor's 500 (S&P 500) index concluded 2004 with a 10.88% return, which included a strong fourth quarter finish of 9.23%. Value stocks outpaced growth stocks both during the fourth quarter and year. During the quarter, the S&P 500 Barra Value index rose 9.93% versus 8.51% for the S&P 500 Barra Growth index.<sup>1</sup> For the year, value stocks (+15.71%) outperformed growth stocks (+6.13%) by 958 basis points. As has been the case throughout the year, returns increased as market capitalization decreased. The small- and mid-cap segments continued their buoyant pace during the quarter with the S&P MidCap 400 up 12.16% and the S&P SmallCap 600 increasing by 13.00%.<sup>2</sup> This year, the performance differential across capitalization segments was even more pronounced. The S&P MidCap 400 index increased by 16.48%, while the S&P SmallCap 600 index increased by 22.68%.

The US economy rallied again in the fourth quarter, continuing the 13-quarter economic expansion. Stock prices, which hit a low in October 2002, have recovered over the past nine quarters. Economic growth, changing from a consumption-driven trend to one that is driven by business and business investment, grew slightly above the 3.5 to 4 cent per share trend. At year end, corporate executives remain cautiously optimistic that inflation would remain under control, with core Consumer Price Index (an inflationary indicator that measures the change in the cost of a fixed basket of products and services) running at about 2.3%, and that the Federal Reserve Board would continue its measured pace of rate increases. The dollar, on a trade-weighted basis, is probably going to continue to decline, but the willingness of overseas investors to own our assets is still high. Our returns on capital and profitability remain superior to what's happening in Europe and Japan.

All S&P 500 index sectors generated positive results for the year with the energy sector increasing the sharpest at 31.54%. Other strong-performing sectors for the year included utilities, telecomm services and industrials, which advanced by 24.28%, 19.85% and 18.03%, respectively. Information technology and health care dampened the index's return advancing by only 2.54% and 1.67% for the year.

The Portfolio Management Team

Northern Trust Investments, N.A., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio may not be able to mirror the S&P 500 index closely enough to track its performance for several reasons, including the portfolio's cost to buy and sell securities, as well as the flow of money into and out of the portfolio. This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, derivatives may be more volatile and less liquid than traditional securities and the portfolio could suffer losses on its derivatives positions. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*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 all distributions and do not reflect fees or expenses. It is not possible to invest directly into an index.*

<sup>1</sup> S&P 500 Barra Value index is an unmanaged, capitalization-weighted index of all the stock in the S&P 500 index that have low price-to-book ratios. The S&P 500 Barra Growth index is an unmanaged, capitalization-weighted index of all the stocks in the S&P 500 index that have high price-to-book ratios.

<sup>2</sup> S&P MidCap 400 index is an unmanaged index that tracks the stock movement of 400 mid-sized US companies.  
S&P SmallCap 600 index is an unmanaged index that tracks the stock movement of 600 small-cap US companies.

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## SVS Index 500 Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	99%	98%
Cash Equivalents	1%	2%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Financials	21%	21%
Information Technology	16%	18%
Health Care	13%	13%
Consumer Discretionary	12%	11%
Industrials	12%	11%
Consumer Staples	10%	11%
Energy	7%	6%
Telecommunication Services	3%	3%
Materials	3%	3%
Utilities	3%	3%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 216. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Index 500 Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 98.4%</b>					
<b>Consumer Discretionary 11.7%</b>					
<b>Auto Components 0.2%</b>					
Cooper Tire & Rubber Co.	2,449	52,776	Dow Jones & Co., Inc.	2,720	117,123
Dana Corp.	5,357	92,837	Gannett Co., Inc.	8,946	730,888
Delphi Corp.	18,383	165,815	Interpublic Group of Companies, Inc.*	13,697	183,540
Goodyear Tire & Rubber Co.*	6,957	101,989	Knight-Ridder, Inc.	3,034	203,096
Johnson Controls, Inc.	6,906	438,117	McGraw-Hill Companies, Inc.	6,869	628,788
Visteon Corp.	3,894	38,044	Meredith Corp.	1,700	92,140
		<b>889,578</b>	New York Times Co. "A"	4,882	199,186
			News Corp. "A"	91,400	1,705,524
			Omnicom Group, Inc.	6,782	571,858
			Time Warner, Inc.*	159,460	3,099,902
			Tribune Co.	10,806	455,365
			Univision Communications, Inc. "A"*	11,205	327,970
			Viacom, Inc. "B"	59,709	2,172,810
			Walt Disney Co.	70,937	1,972,049
		<b>2,360,743</b>			<b>15,740,528</b>
<b>Automobiles 0.6%</b>					
Ford Motor Co.	64,203	939,932	<b>Multiline Retail 1.1%</b>		
General Motors Corp.	19,491	780,810	Big Lots, Inc.*	3,692	44,784
Harley-Davidson, Inc.	10,535	640,001	Dillard's, Inc. "A"	3,351	90,041
			Dollar General Corp.	12,247	254,370
			Family Dollar Stores, Inc.	5,679	177,355
			Federated Department Stores, Inc.	6,209	358,818
			J.C. Penny Co., Inc.	9,683	400,876
			Kohl's Corp.*	11,781	579,272
			May Department Stores Co.	10,737	315,668
			Nordstrom, Inc.	4,524	211,407
			Sears, Roebuck & Co.	7,001	357,261
			Target Corp.	31,811	1,651,945
					<b>4,441,797</b>
			<b>Specialty Retail 2.4%</b>		
			AutoNation, Inc.*	8,500	163,285
			AutoZone, Inc.*	2,742	250,372
			Bed Bath & Beyond, Inc.*	10,776	429,208
			Best Buy Co., Inc.	10,997	653,442
			Circuit City Stores, Inc.	7,630	119,333
			Home Depot, Inc.	76,433	3,266,746
			Limited Brands	14,021	322,763
			Lowe's Companies, Inc.	27,536	1,585,798
			Office Depot, Inc.*	9,903	171,916
			OfficeMax, Inc.	3,441	107,979
			RadioShack Corp.	5,270	173,278
			Sherwin-Williams Co.	4,770	212,885
			Staples, Inc.	18,026	607,657
			The Gap, Inc.	30,825	651,024
			Tiffany & Co.	4,600	147,062
			TJX Companies, Inc.	17,493	439,599
			Toys "R" Us, Inc.*	8,117	166,155
					<b>9,468,502</b>
			<b>Textiles, Apparel &amp; Luxury Goods 0.5%</b>		
			Coach, Inc.*	6,500	366,600
			Jones Apparel Group, Inc.	4,166	152,351
			Liz Claiborne, Inc.	3,766	158,963
			NIKE, Inc. "B"	9,063	821,923
			Reebok International Ltd.	2,518	110,792
			VF Corp.	4,121	228,221
					<b>1,838,850</b>
<b>Distributors 0.1%</b>					
Genuine Parts Co.	5,509	242,727			
<b>Hotels Restaurants &amp; Leisure 1.5%</b>					
Carnival Corp.	22,491	1,296,156			
Darden Restaurants, Inc.	5,275	146,328			
Harrah's Entertainment, Inc.	4,319	288,898			
Hilton Hotels Corp.	13,040	296,530			
International Game Technology	11,497	395,267			
Marriott International, Inc. "A"	7,817	492,315			
McDonald's Corp.	44,906	1,439,686			
Starbucks Corp.*	14,333	893,806			
Starwood Hotels & Resorts Worldwide, Inc.	6,846	399,806			
Wendy's International, Inc.	3,611	141,768			
YUM! Brands, Inc.	9,849	464,676			
		<b>6,255,236</b>			
<b>Household Durables 0.5%</b>					
Black & Decker Corp.	2,694	237,961			
Centex Corp.	4,056	241,656			
Fortune Brands, Inc.	5,187	400,333			
KB Home	1,769	184,684			
Leggett & Platt, Inc.	6,357	180,729			
Maytag Corp.	3,229	68,132			
Newell Rubbermaid, Inc.	9,046	218,823			
Pulte Homes, Inc.	4,196	267,705			
Snap-On, Inc.	1,893	65,043			
The Stanley Works	2,719	133,204			
Whirlpool Corp.	2,314	160,152			
		<b>2,158,422</b>			
<b>Internet &amp; Catalog Retail 0.7%</b>					
eBay, Inc.*	23,235	2,701,766			
<b>Leisure Equipment &amp; Products 0.2%</b>					
Brunswick Corp.	3,575	176,962			
Eastman Kodak Co.	10,459	337,303			
Hasbro, Inc.	5,527	107,113			
Mattel, Inc.	14,553	283,638			
		<b>905,016</b>			
<b>Media 3.9%</b>					
Clear Channel Communications, Inc.	20,659	691,870			
Comcast Corp. "A"*	77,777	2,588,419			

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

	Shares	Value (\$)		Shares	Value (\$)
<b>Consumer Staples 10.3%</b>					
<b>Beverages 2.2%</b>					
Adolph Coors Co. "B"	1,535	116,153	Schlumberger Ltd.	20,544	1,375,421
Anheuser-Busch Companies, Inc.	28,190	1,430,079	Transocean, Inc.*	11,124	471,546
Brown-Forman Corp. "B"	3,780	184,010			<b>3,840,878</b>
Coca-Cola Co.	84,204	3,505,413	<b>Oil &amp; Gas 6.1%</b>		
Coca-Cola Enterprises, Inc.	16,834	350,989	Amerada Hess Corp.	2,950	243,021
Pepsi Bottling Group, Inc.	9,100	246,064	Anadarko Petroleum Corp.	8,327	539,673
PepsiCo, Inc.	59,478	3,104,752	Apache Corp.	10,997	556,118
		<b>8,937,460</b>	Ashland, Inc.	2,315	135,150
<b>Food &amp; Staples Retailing 3.1%</b>			Burlington Resources, Inc.	14,196	617,526
Albertsons, Inc.	12,891	307,837	ChevronTexaco Corp.	73,802	3,875,343
Costco Wholesale Corp.	16,694	808,157	ConocoPhillips	24,347	2,114,050
CVS Corp.	14,096	635,307	Devon Energy Corp.	17,572	683,902
Kroger Co.*	26,149	458,653	El Paso Corp.	21,441	222,987
Safeway, Inc.*	14,637	288,934	EOG Resources, Inc.	3,939	281,087
SUPERVALU, Inc.	4,270	147,400	ExxonMobil Corp.	225,486	11,558,412
Sysco Corp.	22,826	871,268	Kerr-McGee Corp.	4,970	287,216
Wal-Mart Stores, Inc.	147,874	7,810,705	Kinder Morgan, Inc.	4,064	297,200
Walgreen Co.	35,891	1,377,138	Marathon Oil Corp.	12,523	470,990
		<b>12,705,399</b>	Occidental Petroleum Corp.	14,311	835,190
<b>Food Products 1.3%</b>			Sunoco, Inc.	2,808	229,442
Archer-Daniels-Midland Co.	23,716	529,104	Unocal Corp.	9,808	424,098
Campbell Soup Co.	13,499	403,485	Valero Energy Corp.	8,600	390,440
ConAgra Foods, Inc.	17,361	511,282	Williams Companies, Inc.	20,143	328,130
General Mills, Inc.	13,616	676,851	XTO Energy, Inc.	9,100	321,958
H.J. Heinz Co.	12,190	475,288			<b>24,411,933</b>
Hershey Foods Corp.	8,478	470,868	<b>Financials 20.3%</b>		
Kellogg Co.	15,093	674,054	<b>Banks 6.4%</b>		
McCormick & Co, Inc.	4,500	173,700	AmSouth Bancorp.	11,645	301,605
Sara Lee Corp.	28,428	686,252	Bank of America Corp.	140,908	6,621,267
William Wrigley Jr. Co.	7,470	516,849	BB&T Corp.	18,759	788,816
		<b>5,117,733</b>	Comerica, Inc.	6,346	387,233
<b>Household Products 1.8%</b>			Compass Bancshares, Inc.	3,700	180,079
Clorox Co.	5,230	308,204	Fifth Third Bancorp.	20,291	959,358
Colgate-Palmolive Co.	18,820	962,831	First Horizon National Corp.	4,143	178,605
Kimberly-Clark Corp.	17,669	1,162,797	Golden West Financial Corp.	10,906	669,847
Procter & Gamble Co.	88,342	4,865,877	Huntington Bancshares, Inc.	9,010	223,268
		<b>7,299,709</b>	KeyCorp.	14,818	502,330
<b>Personal Products 0.6%</b>			M&T Bank Corp.	3,897	420,252
Alberto-Culver Co. "B"	3,050	148,139	Marshall & Ilsley Corp.	7,300	322,660
Avon Products, Inc.	15,982	618,503	National City Corp.	24,503	920,088
Gillette Co.	35,192	1,575,898	North Fork Bancorp., Inc.	16,200	467,370
		<b>2,342,540</b>	PNC Financial Services Group	10,280	590,483
<b>Tobacco 1.3%</b>			Regions Financial Corp.	15,287	544,064
Altria Group, Inc.	71,547	4,371,522	Sovereign Bancorp, Inc.	10,967	247,306
Reynolds American, Inc.	5,245	412,257	SunTrust Banks, Inc.	13,349	986,224
UST, Inc.	6,211	298,811	Synovus Financial Corp.	10,082	288,144
		<b>5,082,590</b>	US Bancorp.	66,411	2,079,992
<b>Energy 7.0%</b>			Wachovia Corp.	56,560	2,975,056
<b>Energy Equipment &amp; Services 0.9%</b>			Washington Mutual, Inc.	30,177	1,275,884
Baker Hughes, Inc.	12,449	531,199	Wells Fargo & Co.	58,813	3,655,228
BJ Services Co.	6,069	282,451	Zions Bancorp.	3,565	242,527
Halliburton Co.	15,007	588,875			<b>25,827,686</b>
Nabors Industries Ltd.*	4,998	256,347	<b>Capital Markets 2.8%</b>		
Noble Corp.*	4,440	220,846	Bank of New York Co., Inc.	28,087	938,668
Rowan Companies, Inc.*	4,409	114,193	Bear Stearns Companies, Inc.	3,400	347,854
			Charles Schwab Corp.	48,497	580,024
			E*TRADE Financial Corp.*	12,000	179,400
			Federated Investors, Inc. "B"	3,500	106,400
			Franklin Resources, Inc.	9,012	627,686

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



	Shares	Value (\$)		Shares	Value (\$)
Goldman Sachs Group, Inc.	16,795	1,747,352	Plum Creek Timber Co., Inc. (REIT)	5,800	222,952
Janus Capital Group, Inc.	7,856	132,059	ProLogis (REIT)	5,700	246,981
Lehman Brothers Holdings, Inc.	9,383	820,825	Simon Property Group, Inc. (REIT)	8,168	528,225
Mellon Financial Corp.	15,773	490,698			<b>2,159,124</b>
Merrill Lynch & Co., Inc.	32,662	1,952,208	<b>Health Care 12.5%</b>		
Morgan Stanley	38,802	2,154,287	<b>Biotechnology 1.3%</b>		
Northern Trust Corp.	7,049	342,440	Amgen, Inc.*	44,201	2,835,494
State Street Corp.	12,153	596,955	Applera Corp. — Applied Biosystems Group	6,641	138,864
T. Rowe Price Group, Inc.	4,731	294,268	Biogen Idec, Inc.*	11,807	786,464
		<b>11,311,124</b>	Chiron Corp.*	6,860	228,644
<b>Consumer Finance 1.4%</b>			Genzyme Corp.*	8,047	467,289
American Express Co.	44,623	2,515,399	Gilead Sciences, Inc.*	14,784	517,292
Capital One Financial Corp.	8,273	696,669	MedImmune, Inc.*	9,045	245,210
MBNA Corp.	45,213	1,274,554			<b>5,219,257</b>
Providian Financial Corp.*	9,714	159,990	<b>Health Care Equipment &amp; Supplies 2.2%</b>		
SLM Corp.	15,425	823,541	Bausch & Lomb, Inc.	1,782	114,868
		<b>5,470,153</b>	Baxter International, Inc.	21,651	747,826
<b>Diversified Financial Services 5.0%</b>			Becton, Dickinson & Co.	9,288	527,558
CIT Group, Inc.	7,300	334,486	Biomet, Inc.	9,153	397,149
Citigroup, Inc.	181,277	8,733,926	Boston Scientific Corp.*	29,616	1,052,849
Countrywide Financial Corp.	19,948	738,275	C.R. Bard, Inc.	3,416	218,556
Fannie Mae	33,718	2,401,059	Fisher Scientific International, Inc.*	4,100	255,758
Freddie Mac	24,487	1,804,692	Guidant Corp.	10,934	788,341
JPMorgan Chase & Co.	124,058	4,839,503	Hospira, Inc.*	5,139	172,157
MGIC Investment Corp.	3,177	218,927	Medtronic, Inc.	42,320	2,102,034
Moody's Corp.	5,252	456,136	Millipore Corp.*	1,631	81,240
Principal Financial Group, Inc.	10,200	417,588	PerkinElmer, Inc.	4,220	94,908
		<b>19,944,592</b>	St. Jude Medical, Inc.*	12,124	508,359
<b>Insurance 4.2%</b>			Stryker Corp.	14,456	697,502
ACE Ltd.	9,500	406,125	Thermo Electron Corp.*	6,105	184,310
AFLAC, Inc.	17,900	713,136	Waters Corp.*	3,900	182,481
Allstate Corp.	24,749	1,280,018	Zimmer Holdings, Inc.*	8,644	692,557
Ambac Financial Group, Inc.	3,586	294,518			<b>8,818,453</b>
American International Group, Inc.	90,855	5,966,448	<b>Health Care Providers &amp; Services 2.2%</b>		
Aon Corp.	10,283	245,352	Aetna, Inc.	5,150	642,463
Chubb Corp.	6,864	527,842	AmerisourceBergen Corp.	3,744	219,698
Cincinnati Financial Corp.	5,335	236,127	Cardinal Health, Inc.	14,969	870,447
Hartford Financial Services Group, Inc.	10,388	719,992	Caremark Rx, Inc.*	15,843	624,689
Jefferson-Pilot Corp.	5,273	273,985	CIGNA Corp.	4,645	378,893
Lincoln National Corp.	6,146	286,895	Express Scripts, Inc.*	2,905	222,058
Loews Corp.	6,730	473,119	HCA, Inc.	14,547	581,298
Marsh & McLennan Companies, Inc.	18,571	610,986	Health Management Associates, Inc. "A"	9,079	206,275
MBIA, Inc.	5,264	333,106	Humana, Inc.*	6,142	182,356
MetLife, Inc.	26,745	1,083,440	IMS Health, Inc.	7,716	179,088
Progressive Corp.	7,026	596,086	Laboratory Corp. of America Holdings*	4,800	239,136
Prudential Financial, Inc.	18,490	1,016,210	Manor Care, Inc.	2,838	100,550
Safeco Corp.	4,843	252,998	McKesson Corp.	9,678	304,470
St. Paul Travelers Companies, Inc.	23,271	862,656	Medco Health Solutions, Inc.*	9,925	412,880
Torchmark Corp.	3,589	205,076	Quest Diagnostics, Inc.	3,391	324,010
UnumProvident Corp.	9,316	167,129	Tenet Healthcare Corp.*	15,222	167,138
XL Capital Ltd. "A"	4,841	375,904	UnitedHealth Group, Inc.	22,896	2,015,535
		<b>16,927,148</b>	WellPoint Health Networks, Inc.*	10,328	1,187,720
<b>Real Estate 0.5%</b>					<b>8,858,704</b>
Apartment Investment & Management Co. "A" (REIT)	3,900	150,306	<b>Pharmaceuticals 6.8%</b>		
Archstone-Smith Trust (REIT)	6,100	233,630	Abbott Laboratories	54,995	2,565,517
Equity Office Properties Trust (REIT)	15,129	440,556	Allergan, Inc.	4,736	383,948
Equity Residential (REIT)	9,300	336,474			

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

	Shares	Value (\$)		Shares	Value (\$)
Bristol-Myers Squibb Co.	69,041	1,768,830	Emerson Electric Co.	14,963	1,048,906
Eli Lilly & Co. (e)	39,275	2,228,856	Power-One, Inc.*	2,782	24,816
Forest Laboratories, Inc.*	12,540	562,544	Rockwell Automation, Inc.	6,108	302,651
Johnson & Johnson	103,606	6,570,693			<b>1,744,305</b>
King Pharmaceuticals, Inc.*	8,965	111,166	<b>Industrial Conglomerates 4.6%</b>		
Merck & Co., Inc.	77,275	2,483,618	3M Co.	26,986	2,214,741
Mylan Laboratories, Inc. (e)	9,800	173,264	General Electric Co.	369,601	13,490,436
Pfizer, Inc.	263,128	7,075,512	Textron, Inc.	4,982	367,672
Schering-Plough Corp.	51,983	1,085,405	Tyco International Ltd.	69,934	2,499,441
Watson Pharmaceuticals, Inc.*	4,059	133,176			<b>18,572,290</b>
Wyeth	46,568	1,983,331	<b>Machinery 1.5%</b>		
		<b>27,125,860</b>	Caterpillar, Inc.	11,950	1,165,244
<b>Industrials 11.6%</b>			Cummins, Inc.	1,702	142,611
<b>Aerospace &amp; Defense 2.0%</b>			Danaher Corp.	10,646	611,187
Boeing Co.	29,760	1,540,675	Deere & Co.	8,750	651,000
General Dynamics Corp.	6,876	719,230	Dover Corp.	7,035	295,048
Goodrich Corp.	3,932	128,340	Eaton Corp.	5,542	401,019
Honeywell International, Inc.	30,103	1,065,947	Illinois Tool Works, Inc.	10,677	989,544
L-3 Communications Holdings, Inc.	3,700	270,988	Ingersoll-Rand Co. "A"	6,335	508,700
Lockheed Martin Corp.	15,622	867,802	ITT Industries, Inc.	3,473	293,295
Northrop Grumman Corp.	12,818	696,786	Navistar International Corp.*	2,271	99,879
Raytheon Co.	16,426	637,822	PACCAR, Inc.	6,386	513,945
Rockwell Collins, Inc.	5,856	230,961	Pall Corp.	3,953	114,439
United Technologies Corp.	18,219	1,882,934	Parker-Hannifin Corp.	4,098	310,383
		<b>8,041,485</b>			<b>6,096,294</b>
<b>Air Freight &amp; Logistics 1.1%</b>			<b>Road &amp; Rail 0.5%</b>		
FedEx Corp.	10,265	1,011,000	Burlington Northern Santa Fe Corp.	13,515	639,395
Ryder System, Inc.	2,652	126,686	CSX Corp.	7,001	280,600
United Parcel Service, Inc. "B"	39,411	3,368,064	Norfolk Southern Corp.	13,585	491,641
		<b>4,505,750</b>	Union Pacific Corp.	8,957	602,358
<b>Airlines 0.1%</b>					<b>2,013,994</b>
Delta Air Lines, Inc.* (e)	5,870	43,908	<b>Trading Companies &amp; Distributors 0.1%</b>		
Southwest Airlines Co.	27,247	443,581	W.W. Grainger, Inc.	2,974	198,128
		<b>487,489</b>	<b>Information Technology 15.8%</b>		
<b>Building Products 0.2%</b>			<b>Communications Equipment 2.7%</b>		
American Standard Companies, Inc.*	7,289	301,181	ADC Telecommunications, Inc.*	31,308	83,905
Masco Corp.	16,216	592,371	Andrew Corp.*	6,180	84,233
		<b>893,552</b>	Avaya, Inc.*	15,715	270,298
<b>Commercial Services &amp; Supplies 1.0%</b>			CIENA Corp.*	22,277	74,405
Allied Waste Industries, Inc.*	11,039	102,442	Cisco Systems, Inc.*	230,632	4,451,198
Apollo Group, Inc. "A"*	6,611	533,574	Comverse Technologies, Inc.*	7,308	178,681
Avery Dennison Corp.	3,615	216,792	Corning, Inc.*	49,647	584,345
Cendant Corp.	37,581	878,644	JDS Uniphase Corp.*	52,034	164,948
Cintas Corp.	5,764	252,809	Lucent Technologies, Inc.*	157,488	592,155
Equifax, Inc.	4,524	127,124	Motorola, Inc.	84,565	1,454,518
H&R Block, Inc.	5,778	283,122	QUALCOMM, Inc.	57,138	2,422,651
Monster Worldwide, Inc.*	4,533	152,490	Scientific-Atlanta, Inc.	5,668	187,101
Pitney Bowes, Inc.	7,591	351,311	Tellabs, Inc.*	17,477	150,127
R.R. Donnelley & Sons Co.	7,164	252,818			<b>10,698,565</b>
Robert Half International, Inc.	5,600	164,808	<b>Computers &amp; Peripherals 3.9%</b>		
Waste Management, Inc.	20,485	613,321	Apple Computer, Inc.*	13,967	899,475
		<b>3,929,255</b>	Dell, Inc.*	87,046	3,668,118
<b>Construction &amp; Engineering 0.1%</b>			EMC Corp.*	85,224	1,267,281
Fluor Corp.	2,725	148,540	Gateway, Inc.*	11,777	70,780
<b>Electrical Equipment 0.4%</b>			Hewlett-Packard Co.	106,253	2,228,125
American Power Conversion Corp.	7,514	160,800	International Business Machines Corp.	58,035	5,721,090
Cooper Industries, Ltd. "A"	3,051	207,132	Lexmark International, Inc. "A"*	4,536	385,560

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

	Shares	Value (\$)		Shares	Value (\$)
NCR Corp.*	3,094	214,198	Computer Associates International, Inc.	20,052	622,815
Network Appliance, Inc.*	12,814	425,681	Compuware Corp.*	12,246	79,232
QLogic Corp.*	3,509	128,886	Electronic Arts, Inc.*	10,746	662,813
Sun Microsystems, Inc.*	119,166	641,113	Intuit, Inc.*	6,937	305,297
		<b>15,650,307</b>	Mercury Interactive Corp.*	3,183	144,986
<b>Electronic Equipment &amp; Instruments 0.3%</b>			Microsoft Corp.	380,162	10,154,127
Agilent Technologies, Inc.*	17,471	421,051	Novell, Inc.*	14,416	97,308
Jabil Circuit, Inc.*	6,581	168,342	Oracle Corp.*	178,469	2,448,595
Molex, Inc.	6,191	185,730	Parametric Technology Corp.*	7,591	44,711
Sanmina-SCI Corp.*	19,217	162,768	Siebel Systems, Inc.*	17,915	188,107
Solectron Corp.*	31,507	167,932	Symantec Corp.*	21,574	555,746
Symbol Technologies, Inc.	7,650	132,345	VERITAS Software Corp.*	14,686	419,285
Tektronix, Inc.	2,824	85,313			<b>16,867,033</b>
		<b>1,323,481</b>	<b>Materials 3.1%</b>		
<b>Internet Software &amp; Services 0.5%</b>			<b>Chemicals 1.7%</b>		
Yahoo!, Inc.*	48,444	1,825,370	Air Products & Chemicals, Inc.	8,264	479,064
<b>IT Consulting &amp; Services 1.1%</b>			Dow Chemical Co.	33,595	1,663,289
Affiliated Computer Services, Inc. "A"*	4,500	270,855	E.I. du Pont de Nemours & Co.	35,350	1,733,918
Automatic Data Processing, Inc.	20,908	927,270	Eastman Chemical Co.	2,537	146,461
Computer Sciences Corp.*	6,523	367,701	Ecolab, Inc.	8,486	298,113
Convergys Corp.*	4,747	71,158	Engelhard Corp.	4,300	131,881
Electronic Data Systems Corp.	17,253	398,544	Great Lakes Chemical Corp.	1,700	48,433
First Data Corp.	29,635	1,260,673	Hercules, Inc.*	3,707	55,049
Fiserv, Inc.*	7,141	286,997	International Flavors & Fragrances, Inc.	3,111	133,275
Paychex, Inc.	13,451	458,410	Monsanto Co.	9,558	530,947
Sabre Holdings Corp.	4,362	96,662	PPG Industries, Inc.	6,205	422,933
SunGard Data Systems, Inc.*	9,499	269,107	Praxair, Inc.	11,263	497,261
Unisys Corp.*	10,880	110,758	Rohm & Haas Co.	7,252	320,756
		<b>4,518,135</b>	Sigma-Aldrich Corp.	2,820	170,497
<b>Office Electronics 0.1%</b>					<b>6,631,877</b>
Xerox Corp.*	34,217	582,031	<b>Construction Materials 0.0%</b>		
<b>Semiconductors &amp; Semiconductor Equipment 3.0%</b>			Vulcan Materials Co.	3,410	186,220
Advanced Micro Devices, Inc.*	13,913	306,364	<b>Containers &amp; Packaging 0.2%</b>		
Altera Corp.*	13,465	278,726	Ball Corp.	3,800	167,124
Analog Devices, Inc.	12,662	467,481	Bemis Co., Inc.	3,512	102,164
Applied Materials, Inc.*	58,625	1,002,488	Pactiv Corp.*	4,998	126,399
Applied Micro Circuits Corp.*	12,600	53,046	Sealed Air Corp.*	2,695	143,563
Broadcom Corp. "A"*	11,277	364,022	Temple-Inland, Inc.	1,768	120,931
Freescal Semiconductor, Inc.*	13,837	254,047			<b>660,181</b>
Intel Corp.	221,945	5,191,294	<b>Metals &amp; Mining 0.7%</b>		
KLA-Tencor Corp.*	7,086	330,066	Alcoa, Inc.	30,467	957,273
Linear Technology Corp.	11,041	427,949	Allegheny Technologies, Inc.	3,667	79,464
LSI Logic Corp.*	12,513	68,571	Freeport-McMoRan Copper & Gold, Inc. "B"	6,109	233,547
Maxim Integrated Products, Inc.	11,147	472,521	Newmont Mining Corp.	16,011	711,048
Micron Technology, Inc.*	20,014	247,173	Nucor Corp.	5,502	287,975
National Semiconductor Corp.*	12,434	223,190	Phelps Dodge Corp.	3,377	334,053
Novellus Systems, Inc.*	5,532	154,288	United States Steel Corp.	3,959	202,899
NVIDIA Corp.*	6,307	148,593			<b>2,806,259</b>
PMC-Sierra, Inc.*	6,855	77,119	<b>Paper &amp; Forest Products 0.5%</b>		
Teradyne, Inc.*	7,305	124,696	Georgia-Pacific Corp.	8,402	314,907
Texas Instruments, Inc.	59,957	1,476,141	International Paper Co.	17,090	717,780
Xilinx, Inc.	11,811	350,196	Louisiana-Pacific Corp.	4,297	114,902
		<b>12,017,971</b>	MeadWestvaco Corp.	6,593	223,436
<b>Software 4.2%</b>			Weyerhaeuser Co.	8,699	584,747
Adobe Systems, Inc.	8,538	535,674			<b>1,955,772</b>
Autodesk, Inc.	8,248	313,012			
BMC Software, Inc.*	7,308	135,929			
Citrix Systems, Inc.*	6,498	159,396			

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

	Shares	Value (\$)		Shares	Value (\$)
<b>Telecommunication Services 3.2%</b>			<b>Gas Utilities 0.1%</b>		
<b>Diversified Telecommunication Services 2.9%</b>			KeySpan Corp.		
ALLTEL Corp.	10,137	595,650		5,532	218,237
AT&T Corp.	28,336	540,084		1,506	55,632
BellSouth Corp.	64,564	1,794,234		10,100	230,078
CenturyTel, Inc.	5,224	185,295		1,128	49,576
Citizens Communications Co.	12,500	172,375			<u>553,523</u>
Qwest Communications International, Inc.*	60,085	266,778	<b>Multi-Utilities 0.8%</b>		
SBC Communications, Inc.	116,106	2,992,052	AES Corp.*	21,871	298,977
Sprint Corp.	52,266	1,298,810	Calpine Corp.*	20,401	80,380
Verizon Communications, Inc.	96,385	3,904,556	CMS Energy Corp.*	6,256	65,375
		<u>11,749,834</u>	Constellation Energy Group, Inc.	5,710	249,584
<b>Wireless Telecommunication Services 0.3%</b>			Dominion Resources, Inc.	12,045	815,928
Nextel Communications, Inc. "A"*	38,843	1,165,290	Duke Energy Corp.	34,431	872,137
<b>Utilities 2.9%</b>			Dynegy, Inc. "A"*	12,553	57,995
<b>Electric Utilities 2.0%</b>			Public Service Enterprise Group, Inc.	8,755	453,247
Allegheny Energy, Inc.*	4,410	86,921	Sempra Energy	8,687	318,639
Ameren Corp.	6,269	314,328			<u>3,212,262</u>
American Electric Power Co.	13,784	473,343	<b>Total Common Stocks (Cost \$342,635,917)</b>		
CenterPoint Energy, Inc.	10,121	114,367			<b>395,280,129</b>
Cinergy Corp.	5,749	239,331	<b>US Government Backed 0.2%</b>		
Consolidated Edison, Inc.	7,722	337,838	US Treasury Bill, 2.18%**, 3/24/2005 (c) (Cost \$726,442)	730,000	726,442
DTE Energy Co.	5,757	248,299	<b>Securities Lending Collateral 0.2%</b>		
Edison International	11,867	380,100	Daily Assets Fund Institutional, 2.25% (d) (f) (Cost \$962,450)	962,450	962,450
Entergy Corp.	8,356	564,782	<b>Cash Equivalents 1.2%</b>		
Exelon Corp.	23,600	1,040,052	Scudder Cash Management QP Trust, 2.24% (b) (Cost \$4,677,217)	4,677,217	4,677,217
FirstEnergy Corp.	11,970	472,935			
FPL Group, Inc.	6,747	504,338			
PG&E Corp.*	14,726	490,081			
Pinnacle West Capital Corp.	3,008	133,585			
PPL Corp.	6,179	329,217			
Progress Energy, Inc.	7,923	358,437			
Southern Co.	26,317	882,146			
TECO Energy, Inc.	5,400	82,836			
TXU Corp.	8,524	550,309			
Xcel Energy, Inc.	13,087	238,183			
		<u>7,841,428</u>			
				<b>% of</b>	
				<b>Net Assets</b>	<b>Value (\$)</b>
			<b>Total Investment Portfolio</b> (Cost \$349,002,026) (a)	100.0	401,646,238
			<b>Other Assets and Liabilities, Net</b>	(0.0)	(136,536)
			<b>Net Assets</b>	100.0	401,509,702

### 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 \$374,533,283. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$27,112,955. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$65,853,112 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$38,740,157.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) At December 31, 2004, this security, in part or in whole, has been segregated to cover initial margin requirements for open futures contracts.
- (d) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (e) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$932,230, which is 0.2% of total net assets.
- (f) Represents collateral held in connection with securities lending.

REIT: Real Estate Investment Trust

At December 31, 2004, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value (\$)	Value (\$)	Net Unrealized Appreciation (Depreciation) (\$)
S&P 500	3/17/2005	21	6,215,901	6,371,925	156,024

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$343,362,359) — including \$932,230 of securities loaned	\$ 396,006,571
Investment in Daily Assets Fund Institutional (cost \$962,450)*	962,450
Investment in Scudder Cash Management QP Trust (cost \$4,677,217)	4,677,217
Total investments in securities, at value (cost \$349,002,026)	401,646,238
Receivable for investments sold	348,365
Dividends receivable	510,329
Interest receivable	14,892
Receivable for Portfolio shares sold	181,626
Other assets	11,965
<b>Total assets</b>	<b>402,713,415</b>

### Liabilities

Payable upon return of securities loaned	962,450
Payable for Portfolio shares redeemed	24,580
Payable for daily variation margin on open futures contracts	16,282
Accrued management fee	60,072
Other accrued expenses and payables	140,329
Total liabilities	1,203,713
<b>Net assets, at value</b>	<b>\$ 401,509,702</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	5,567,259
Net unrealized appreciation (depreciation) on:	
Investments	52,644,212
Futures	156,024
Accumulated net realized gain (loss)	(46,088,532)
Paid-in capital	389,230,739
<b>Net assets, at value</b>	<b>\$ 401,509,702</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$332,957,896 ÷ 36,513,515 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.12</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$68,551,806 ÷ 7,543,430 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.09</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends	\$ 7,322,952
Interest	7,694
Interest — Scudder Cash Management QP Trust	81,741
Securities lending income, including income from Daily Assets Fund Institutional	3,534
<b>Total Income</b>	<b>7,415,921</b>
Expenses:	
Management fee	1,145,237
Custodian and accounting fees	169,405
Distribution service fees (Class B)	128,429
Record keeping fees (Class B)	67,396
Auditing	47,500
Legal	22,815
Trustees' fees and expenses	6,150
Reports to shareholders	43,270
Registration fees	760
Other	47,303
Total expenses, before expense reductions	1,678,265
Expense reductions	(9,101)
Total expenses, after expense reductions	1,669,164
<b>Net investment income (loss)</b>	<b>5,746,757</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	(11,480,105)
Futures	843,542
	(10,636,563)
Net unrealized appreciation (depreciation) during the period on:	
Investments	41,973,365
Futures	(14,332)
	41,959,033
<b>Net gain (loss) on investment transactions</b>	<b>31,322,470</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 37,069,227</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 5,746,757	\$ 3,524,386
Net realized gain (loss) on investment transactions	(10,636,563)	(12,180,785)
Net unrealized appreciation (depreciation) on investment transactions during the period	41,959,033	79,217,419
Net increase (decrease) in net assets resulting from operations	37,069,227	70,561,020
Distributions to shareholders from:		
Net investment income		
Class A	(3,148,196)	(2,840,811)
Class B	(262,259)	(39,707)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	58,800,030	64,041,270
Reinvestment of distributions	3,148,196	2,840,811
Cost of shares redeemed	(65,809,853)	(54,166,484)
Net increase (decrease) in net assets from Class A share transactions	(3,861,627)	12,715,597
<b>Class B</b>		
Proceeds from shares sold	43,175,923	30,974,956
Reinvestment of distributions	262,259	39,707
Cost of shares redeemed	(13,817,023)	(3,018,857)
Net increase (decrease) in net assets from Class B share transactions	29,621,159	27,995,806
<b>Increase (decrease) in net assets</b>	<b>59,418,304</b>	<b>108,391,905</b>
Net assets at beginning of period	342,091,398	233,699,493
Net assets at end of period (including undistributed net investment income of \$5,567,259 and \$3,279,886, respectively)	<b>\$ 401,509,702</b>	<b>\$ 342,091,398</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	36,967,597	35,202,430
Shares sold	6,987,566	8,891,513
Shares issued to shareholders in reinvestment of distributions	375,232	450,208
Shares redeemed	(7,816,880)	(7,576,554)
Net increase (decrease) in Portfolio shares	(454,082)	1,765,167
Shares outstanding at end of period	<b>36,513,515</b>	<b>36,967,597</b>
<b>Class B</b>		
Shares outstanding at beginning of period	4,013,326	175,906
Shares sold	5,136,505	4,214,305
Shares issued to shareholders in reinvestment of distributions	31,296	6,293
Shares redeemed	(1,637,697)	(383,178)
Net increase (decrease) in Portfolio shares	3,530,104	3,837,420
Shares outstanding at end of period	<b>7,543,430</b>	<b>4,013,326</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 8.35	\$ 6.61	\$ 8.55	\$ 9.78	\$ 10.96
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.14	.09	.09	.08	.10
Net realized and unrealized gain (loss) on investment transactions	.72	1.73	(1.99)	(1.26)	(1.18)
<b>Total from investment operations</b>	<b>.86</b>	<b>1.82</b>	<b>(1.90)</b>	<b>(1.18)</b>	<b>(1.08)</b>
<i>Less distributions from:</i>					
Net investment income	(.09)	(.08)	(.04)	(.05)	(.05)
Net realized gains on investment transactions	—	—	—	—	(.05)
<b>Total distributions</b>	<b>(.09)</b>	<b>(.08)</b>	<b>(.04)</b>	<b>(.05)</b>	<b>(.10)</b>
Net asset value, end of period	\$ 9.12	\$ 8.35	\$ 6.61	\$ 8.55	\$ 9.78
Total Return (%)	10.38	27.93	(22.34)	(12.05) <sup>c</sup>	(9.93) <sup>c</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	333	309	233	219	102
Ratio of expenses before expense reductions (%)	.41	.49	.48	.65	.88
Ratio of expenses after expense reductions (%)	.41	.49	.48	.55	.54
Ratio of net investment income (loss) (%)	1.64	1.31	1.16	.88	.90
Portfolio turnover rate (%)	13	8	6	13	20

<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> Based on average shares outstanding during the period.

<sup>c</sup> Total return would have been lower had certain expenses not been reduced.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 8.32	\$ 6.59	\$ 7.21
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	.11	.06	.05
Net realized and unrealized gain (loss) on investment transactions	.72	1.74	(.67)
<b>Total from investment operations</b>	<b>.83</b>	<b>1.80</b>	<b>(.62)</b>
<i>Less distributions from:</i>			
Net investment income	(.06)	(.07)	—
Net asset value, end of period	\$ 9.09	\$ 8.32	\$ 6.59
Total Return (%)	9.98 <sup>c</sup>	27.57	(8.60) <sup>**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	69	33	1
Ratio of expenses before expense reductions (%)	.79	.88	.69*
Ratio of expenses after expense reductions (%)	.78	.88	.69*
Ratio of net investment income (loss) (%)	1.28	.92	1.42*
Portfolio turnover rate (%)	13	8	6

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<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

## SVS INVESCO Dynamic Growth Portfolio

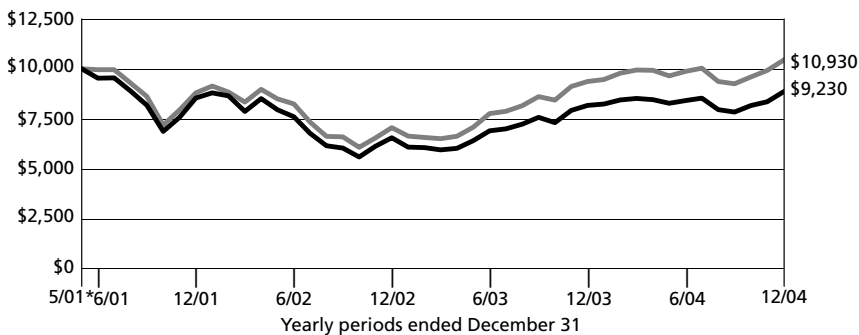
All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Stocks of medium-sized companies involve greater risk as they often have limited product lines, markets, or financial resources and may be sensitive to erratic and abrupt market movements more so than securities of larger, more-established companies. Additionally, the Portfolio may also focus its investments on certain industry sectors, thereby increasing its vulnerability to any single industry or regulatory development. All of these factors may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

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 Portfolio would be lower.

### Growth of an Assumed \$10,000 Investment in SVS INVESCO Dynamic Growth Portfolio from 5/1/2001 to 12/31/2004

- SVS INVESCO Dynamic Growth Portfolio — Class A
- Russell Midcap Growth Index



The 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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

SVS INVESCO Dynamic Growth Portfolio	1-Year	3-Year	Life of Portfolio*
<b>Class A</b>			
Growth of \$10,000	\$11,201	\$10,489	\$9,230
Average annual total return	12.01%	1.60%	-2.16%
<b>Russell Midcap Growth Index</b>			
Growth of \$10,000	\$11,548	\$11,964	\$10,930
Average annual total return	15.48%	6.16%	2.45%
SVS INVESCO Dynamic Growth Portfolio	1-Year	Life of Class**	
<b>Class B</b>			
Growth of \$10,000	\$11,145	\$14,055	
Average annual total return	11.45%	14.57%	
<b>Russell Midcap Growth Index</b>			
Growth of \$10,000	\$11,548	\$14,900	
Average annual total return	15.48%	17.29%	

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 2001. Index returns begin April 30, 2001.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.



# Information About Your Portfolio's Expenses

## SVS INVESCO Dynamic Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

<b>Actual Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,082.10	\$ 1,079.00
Expenses Paid per \$1,000*	\$ 6.80	\$ 8.88
<b>Hypothetical 5% Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,018.68	\$ 1,016.66
Expenses Paid per \$1,000*	\$ 6.59	\$ 8.62

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

<b>Annualized Expense Ratios</b>	<b>Class A</b>	<b>Class B</b>
Scudder Variable Series II — SVS INVESCO Dynamic Growth Portfolio	1.30%	1.70%

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

## SVS INVESCO Dynamic Growth Portfolio

In the period ending December 31, 2004, SVS INVESCO Dynamic Growth Portfolio underperformed the 15.48% return of the Russell Midcap Growth Index, but still posted a solid gain for the year of 12.01% (Class A shares, unadjusted for contract charges). During 2004, the managers reduced the total number of holdings in the portfolio, but took steps to diversify the holdings across sectors. Specifically, the portfolio managers decreased exposure to the information technology sector, and added to their positions in the energy, industrials, materials and telecommunications sectors. By the end of the year, the portfolio held overweight positions in the financials, energy, telecommunications and materials sectors. It held underweight positions in the consumer discretionary, staples, health care and information technology sectors relative to the Russell Midcap Growth Index.

Stock selection in the information technology sector was the largest detractor from the portfolio's relative performance. Within the IT sector, the semiconductor stocks, in particular, detracted from the portfolio, as this was the worst-performing industry group in 2004. Stock selection and an underweight position in the health care sector also detracted from relative performance during the year. Stock selection in the industrials sector positively contributed to performance relative to the Russell Midcap Growth Index in 2004. Telecommunications holdings also boosted the portfolio's performance as shares of wireless telecommunications services companies posted solid gains.

Going forward, the portfolio management team will continue to utilize fundamental analysis to identify stocks with sustainable growth characteristics and attractive valuations. The managers will balance their high-quality core growth holdings with earnings momentum stocks that may have strong near-term prospects for appreciation. The portfolio should be well positioned to benefit from the current economic climate.

Paul J. Rasplicka	Michael Chapman
Lead Manager	Manager

INVESCO Institutional (N.A.), Inc., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

Returns during part or all of the periods shown reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

### Risk Considerations

Stocks of medium-sized companies involve greater risk as they often have limited product lines, markets, or financial resources and may be sensitive to erratic and abrupt market movements more so than securities of larger, more-established companies. Additionally, the portfolio may also focus its investments on certain industry sectors, thereby increasing its vulnerability to any single industry or regulatory development. All of these factors may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The 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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## SVS INVESCO Dynamic Growth Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	94%	95%
Cash Equivalents	5%	4%
Exchange Traded Fund	1%	1%
	<b>100%</b>	<b>100%</b>

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Information Technology	22%	33%
Consumer Discretionary	21%	21%
Health Care	17%	17%
Industrials	16%	13%
Financials	11%	7%
Energy	6%	4%
Materials	3%	2%
Telecommunication Services	3%	2%
Consumer Staples	1%	1%
	<b>100%</b>	<b>100%</b>

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 229. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS INVESCO Dynamic Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 94.6%</b>					
<b>Consumer Discretionary 19.5%</b>					
<b>Hotels Restaurants &amp; Leisure 6.2%</b>					
Hilton Hotels Corp.	33,100	752,694	T. Rowe Price Group, Inc.	7,600	472,720
Royal Caribbean Cruises Ltd. (e)	11,800	642,392			<b>1,465,315</b>
Starwood Hotels & Resorts Worldwide, Inc.	11,800	689,120	<b>Diversified Financial Services 1.7%</b>		
Station Casinos, Inc.	9,700	530,396	CapitalSource, Inc.* (e)	16,400	420,988
		<b>2,614,602</b>	Moody's Corp.	3,400	295,290
					<b>716,278</b>
<b>Household Durables 1.9%</b>			<b>Insurance 1.1%</b>		
Garmin Ltd. (e)	5,100	310,284	Quanta Capital Holdings Ltd.* (e)	4,700	43,334
Pulte Homes, Inc.	7,200	459,360	Willis Group Holdings Ltd.	10,100	415,817
		<b>769,644</b>			<b>459,151</b>
<b>Media 2.1%</b>			<b>Real Estate 3.5%</b>		
Omnicom Group, Inc.	5,100	430,032	Aames Investment Corp. (REIT) (e)	37,700	403,390
The E.W. Scripps Co. "A"	9,300	449,004	CB Richard Ellis Group, Inc. "A"*	14,200	476,410
		<b>879,036</b>	New Century Financial Corp. (REIT)	9,300	594,363
					<b>1,474,163</b>
<b>Multiline Retail 2.0%</b>			<b>Health Care 16.1%</b>		
Dollar General Corp. (e)	20,700	429,939	<b>Biotechnology 2.7%</b>		
Kohl's Corp.*	8,600	422,862	Genzyme Corp.*	6,300	365,841
		<b>852,801</b>	Gilead Sciences, Inc.*	8,800	307,912
			Invitrogen Corp.*	3,600	241,668
<b>Specialty Retail 4.5%</b>			Martek Biosciences Corp.*	4,400	225,280
Abercrombie & Fitch Co. "A"	10,200	478,890			<b>1,140,701</b>
Advance Auto Parts, Inc.*	9,500	414,960	<b>Health Care Equipment &amp; Supplies 5.0%</b>		
Ross Stores, Inc.	15,300	441,711	Cooper Companies, Inc.	6,100	430,599
Staples, Inc.	16,900	569,699	INAMED Corp.*	5,300	335,225
		<b>1,905,260</b>	Kinetic Concepts, Inc.*	6,900	526,470
			Nobel Biocare Holding AG	1,900	344,209
<b>Textiles, Apparel &amp; Luxury Goods 2.8%</b>			Waters Corp.*	9,600	449,184
Coach, Inc.*	9,400	530,160			<b>2,085,687</b>
Polo Ralph Lauren Corp.	15,400	656,040	<b>Health Care Providers &amp; Services 4.9%</b>		
		<b>1,186,200</b>	Aetna, Inc.	3,900	486,525
			Caremark Rx, Inc.*	16,629	655,682
<b>Consumer Staples 0.9%</b>			Express Scripts, Inc.*	5,700	435,708
<b>Food &amp; Staples Retailing</b>			Henry Schein, Inc.*	6,900	480,516
BJ's Wholesale Club, Inc.*	13,400	390,342			<b>2,058,431</b>
<b>Energy 5.5%</b>			<b>Pharmaceuticals 3.5%</b>		
<b>Energy Equipment &amp; Services 2.1%</b>			MGI Pharma, Inc.*	11,800	330,518
Halliburton Co.	10,900	427,716	Shire Pharmaceuticals Group PLC (ADR) (e)	21,400	683,730
Smith International, Inc.*	8,100	440,721	Valeant Pharmaceuticals International (e)	17,900	471,665
		<b>868,437</b>			<b>1,485,913</b>
<b>Oil &amp; Gas 3.4%</b>			<b>Industrials 14.9%</b>		
Apache Corp.	2	101	<b>Air Freight &amp; Couriers 0.9%</b>		
Murphy Oil Corp.	5,300	426,385	C.H. Robinson Worldwide, Inc.	6,500	360,880
Talisman Energy, Inc.	15,700	423,272	<b>Commercial Services &amp; Supplies 8.4%</b>		
Williams Companies, Inc.	37,200	605,988	Apollo Group, Inc. "A"*	2,440	196,932
		<b>1,455,746</b>	Career Education Corp.*	12,300	492,000
			Cintas Corp.	8,900	390,354
<b>Financials 10.7%</b>			Corrections Corp. of America*	12,500	505,625
<b>Banks 1.0%</b>			Iron Mountain, Inc.*	14,500	442,105
Zions Bancorp.	6,100	414,983	Manpower, Inc.	14,300	690,690
<b>Capital Markets 3.4%</b>			Republic Services, Inc.	14,300	479,622
Investors Financial Services Corp.	8,500	424,830	Stericycle, Inc.*	7,700	353,815
Legg Mason, Inc.	7,750	567,765			<b>3,551,143</b>

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



# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$31,728,949) — including \$3,119,338 of securities loaned	\$ 40,296,060
Investment in Daily Assets Fund Institutional (cost \$3,190,356)*	3,190,356
Investment in Scudder Cash Management QP Trust (cost \$2,313,714)	2,313,714
Total investments in securities, at value (cost \$37,233,019)	45,800,130
Cash	11,559
Receivable for investments sold	121,840
Dividends receivable	32,938
Interest receivable	8,145
Receivable for Portfolio shares sold	7,338
Foreign taxes recoverable	593
Other assets	1,399
<b>Total assets</b>	<b>45,983,942</b>

### Liabilities

Payable for investments purchased	499,773
Payable upon return of securities loaned	3,190,356
Payable for Portfolio shares redeemed	29,116
Other accrued expenses and payables	70,790
Total liabilities	3,790,035
<b>Net assets, at value</b>	<b>\$ 42,193,907</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	(213)
Net unrealized appreciation (depreciation) on:	
Investments	8,567,111
Foreign currency related transactions	40
Accumulated net realized gain (loss)	(2,797,169)
Paid-in capital	36,424,138
<b>Net assets, at value</b>	<b>\$ 42,193,907</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$34,929,103 ÷ 3,784,410 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.23</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$7,264,804 ÷ 793,650 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.15</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$1,704)	\$ 191,259
Interest — Scudder Cash Management QP Trust	28,345
Securities lending income, including income from Daily Assets Fund Institutional	11,252
<b>Total Income</b>	<b>230,856</b>
Expenses:	
Management fee	389,667
Custodian and accounting fees	112,196
Distribution service fees (Class B)	14,375
Record keeping fees (Class B)	7,766
Auditing	44,886
Legal	20,749
Trustees' fees and expenses	939
Reports to shareholders	5,761
Other	2,942
Total expenses, before expense reductions	599,281
Expense reductions	(69,866)
Total expenses, after expense reductions	529,415
<b>Net investment income (loss)</b>	<b>(298,559)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	4,623,604
Foreign currency related transactions	19,597
	4,643,201
Net unrealized appreciation (depreciation) during the period on:	
Investments	85,635
Foreign currency related transactions	37
	85,672
<b>Net gain (loss) on investment transactions</b>	<b>4,728,873</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 4,430,314</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ (298,559)	\$ (267,890)
Net realized gain (loss) on investment transactions	4,643,201	787,660
Net unrealized appreciation (depreciation) on investment transactions during the period	85,672	8,947,748
Net increase (decrease) in net assets resulting from operations	4,430,314	9,467,518
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	4,190,288	4,799,111
Cost of shares redeemed	(7,454,938)	(4,360,153)
Net increase (decrease) in net assets from Class A share transactions	(3,264,650)	438,958
<b>Class B</b>		
Proceeds from shares sold	3,116,161	3,887,012
Cost of shares redeemed	(1,201,557)	(110,618)
Net increase (decrease) in net assets from Class B share transactions	1,914,604	3,776,394
<b>Increase (decrease) in net assets</b>	<b>3,080,268</b>	<b>13,682,870</b>
Net assets at beginning of period	39,113,639	25,430,769
Net assets at end of period (including accumulated net investment loss of \$213 and \$208, respectively)	\$ <b>42,193,907</b>	\$ <b>39,113,639</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	4,185,184	4,165,073
Shares sold	493,942	671,597
Shares redeemed	(894,716)	(651,486)
Net increase (decrease) in Portfolio shares	(400,774)	20,111
Shares outstanding at end of period	<b>3,784,410</b>	<b>4,185,184</b>
<b>Class B</b>		
Shares outstanding at beginning of period	562,802	15,737
Shares sold	370,510	562,002
Shares redeemed	(139,662)	(14,937)
Net increase (decrease) in Portfolio shares	230,848	547,065
Shares outstanding at end of period	<b>793,650</b>	<b>562,802</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001 <sup>a</sup>
<b>Selected Per Share Data</b>				
<b>Net asset value, beginning of period</b>	<b>\$ 8.24</b>	<b>\$ 6.08</b>	<b>\$ 8.80</b>	<b>\$ 10.00</b>
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>b</sup>	(.06)	(.06)	(.05)	(.02)
Net realized and unrealized gain (loss) on investment transactions	1.05	2.22	(2.67)	(1.18)
<b>Total from investment operations</b>	<b>.99</b>	<b>2.16</b>	<b>(2.72)</b>	<b>(1.20)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.23</b>	<b>\$ 8.24</b>	<b>\$ 6.08</b>	<b>\$ 8.80</b>
Total Return (%)	12.01 <sup>c</sup>	35.53 <sup>c</sup>	(30.91)	(12.00) <sup>c**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	35	34	25	23
Ratio of expenses before expense reductions (%)	1.48	1.46	1.14	1.97*
Ratio of expenses after expense reductions (%)	1.30	1.30	1.14	1.30*
Ratio of net investment income (loss) (%)	(.71)	(.85)	(.71)	(.40)*
Portfolio turnover rate (%)	133	115	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> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
<b>Net asset value, beginning of period</b>	<b>\$ 8.21</b>	<b>\$ 6.07</b>	<b>\$ 6.51</b>
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	(.09)	(.09)	(.03)
Net realized and unrealized gain (loss) on investment transactions	1.03	2.23	(.41)
<b>Total from investment operations</b>	<b>.94</b>	<b>2.14</b>	<b>(.44)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.15</b>	<b>\$ 8.21</b>	<b>\$ 6.07</b>
Total Return (%)	11.45 <sup>c</sup>	35.26 <sup>c</sup>	(6.76) <sup>**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	7	5	.1
Ratio of expenses before expense reductions (%)	1.88	1.85	1.40*
Ratio of expenses after expense reductions (%)	1.70	1.69	1.40*
Ratio of net investment income (loss) (%)	(1.11)	(1.24)	(.82)*
Portfolio turnover rate (%)	133	115	79

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<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



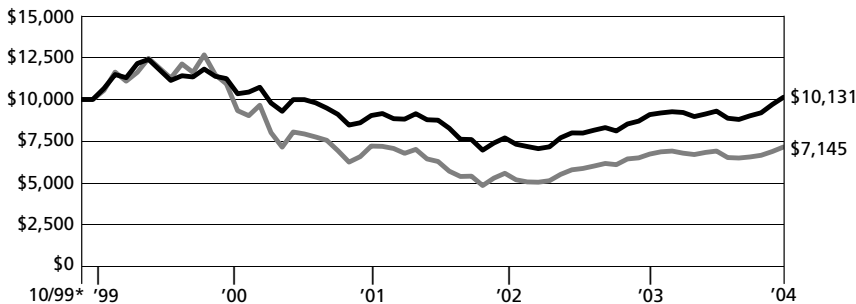
## SVS Janus Growth and Income Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

The Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. The Portfolio also invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in SVS Janus Growth and Income Portfolio from 10/29/1999 to 12/31/2004

- SVS Janus Growth and Income Portfolio — Class A
- Russell 1000 Growth Index



The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

SVS Janus Growth and Income Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$11,151	\$11,064	\$8,815	\$10,131
	Average annual total return	11.51%	3.43%	-2.49%	.25%
Russell 1000 Growth Index					
	Growth of \$10,000	\$10,630	\$9,946	\$6,140	\$7,145
	Average annual total return	6.30%	-.18%	-9.29%	-6.30%
SVS Janus Growth and Income Portfolio		1-Year	Life of Class**		
Class B	Growth of \$10,000	\$11,109	\$12,402		
	Average annual total return	11.09%	8.98%		
Russell 1000 Growth Index					
	Growth of \$10,000	\$10,630	\$12,555		
	Average annual total return	6.30%	9.53%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations October 29, 1999. Index returns begin October 31, 1999. Total returns would have been lower for the Life of Portfolio period for Class A shares if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## SVS Janus Growth and Income Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,089.30	\$ 1,087.50
Expenses Paid per \$1,000*	\$ 5.49	\$ 7.45
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,019.95	\$ 1,018.07
Expenses Paid per \$1,000*	\$ 5.31	\$ 7.20

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — SVS Janus Growth and Income Portfolio	1.04%	1.42%

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

## SVS Janus Growth and Income Portfolio

SVS Janus Growth and Income Portfolio gained 11.51% (Class A shares, unadjusted for contract charges) for the fiscal year ended December 31, 2004, outperforming its benchmark, the Russell 1000 Growth Index, which returned 6.30% during the period. This performance owed its largest gains to the strong returns of a number of well-chosen health care stocks in the portfolio, in large part United Health Group, Inc. and Aetna, Inc. These HMOs are important holdings in the portfolio because their earnings outlook should benefit from several important trends such as membership growth. Both companies have above-average earnings growth prospects while trading at below-average valuations. Another strong contributor to the portfolio's performance was oil giant ExxonMobil Corp. The company's share price has followed the increase of its earnings in the current high oil price environment.

On the flip side, weak results posted by Samsung Electronics Co. and Texas Instruments, Inc. detracted from performance. Samsung Electronics is the second-largest semiconductor company in the world. Despite continued strength in its memory products, this Korean company's shares declined along with the broader technology industry due to concerns relating to the future profitability of the handset and flat-panel businesses. Portfolio management believes that Samsung's valuation is unsustainably cheap given the company's world-class status and maintains the portfolio's position. Texas Instruments is also a leading semiconductor company and has strong market positions in several subsectors. The stock has been a disappointing performer due to investor concerns regarding the sustainability of the semiconductor cycle upswing and specific weakness in the wireless business. Management believes that Texas Instrument's overall business fundamentals are solid and that the company is positioned to deliver steady revenue growth for the next few quarters. For these reasons, the stock remains in the portfolio.

Minyoung Sohn

Portfolio Manager, Janus Capital Management LLC, Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. The portfolio also invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## SVS Janus Growth and Income Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	95%	91%
Preferred Stocks	3%	1%
Cash Equivalents	2%	6%
Corporate Bonds	—	1%
Convertible Preferred Stocks	—	1%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Information Technology	24%	20%
Consumer Discretionary	18%	21%
Health Care	15%	13%
Industrials	14%	15%
Financials	12%	18%
Energy	9%	5%
Consumer Staples	8%	6%
Utilities	—	1%
Materials	—	1%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 238. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.



	Shares	Value (\$)
<b>Information Technology 22.8%</b>		
<b>Communications Equipment 2.7%</b>		
Cisco Systems, Inc.*	220,045	4,246,869
Nokia Oyj (ADR)	93,535	1,465,693
		<b>5,712,562</b>
<b>Computers &amp; Peripherals 1.8%</b>		
Dell, Inc.*	41,875	1,764,612
International Business Machines Corp.	22,310	2,199,320
		<b>3,963,932</b>
<b>Electronic Equipment &amp; Instruments 2.6%</b>		
Samsung Electronics Co., Ltd. (GDR), 144A	25,065	5,489,235
<b>Internet Software &amp; Services 1.8%</b>		
EarthLink, Inc.*	76,255	878,458
Yahoo!, Inc.*	81,905	3,086,180
		<b>3,964,638</b>
<b>Semiconductors &amp; Semiconductor Equipment 8.6%</b>		
Advanced Micro Devices, Inc.* (e)	372,035	8,192,211
Linear Technology Corp.	78,145	3,028,900
Maxim Integrated Products, Inc.	83,840	3,553,977
Texas Instruments, Inc.	145,190	3,574,578
		<b>18,349,666</b>
<b>Software 5.3%</b>		
Computer Associates International, Inc.	58,910	1,829,745
Electronic Arts, Inc.*	53,520	3,301,114
Macromedia, Inc.*	20,800	647,296
Microsoft Corp.	181,250	4,841,187
Oracle Corp.*	50,545	693,477
		<b>11,312,819</b>
<b>Total Common Stocks (Cost \$160,717,419)</b>		<b>202,763,114</b>

	Principal Amount (\$)	Value (\$)
<b>Convertible Bond 0.1%</b>		
Lamar Advertising Co., 2.875%, 12/31/2010 (Cost \$175,000)	175,000	192,955
	<b>Shares</b>	<b>Value (\$)</b>
<b>Preferred Stocks 0.7%</b>		
Porsche AG* (Cost \$697,147)	2,476	1,580,103
<b>Convertible Preferred Stocks 2.3%</b>		
Amerada Hess Corp., 7.0%	20,700	1,530,765
Goldman Sachs Group, Inc., 6.25%, Series B	35,200	876,199
Goldman Sachs Group, Inc., 8.125%, Series B	24,215	911,283
Lehman Brothers Holdings, Inc., 6.25%, Series GIS	13,850	373,950
XL Capital Ltd., 6.5%	43,500	1,107,075
<b>Total Convertible Preferred Stocks (Cost \$4,422,909)</b>		<b>4,799,272</b>
<b>Securities Lending Collateral 5.9%</b>		
Daily Assets Fund Institutional, 2.25% (c) (d) (Cost \$12,640,857)	12,640,857	12,640,857
<b>Cash Equivalents 1.7%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$3,634,814)	3,634,814	3,634,814
	<b>% of Net Assets</b>	<b>Value (\$)</b>
<b>Total Investment Portfolio (Cost \$182,288,146) (a)</b>	105.6	<b>225,611,115</b>
<b>Other Assets and Liabilities, Net</b>	(5.6)	<b>(11,939,776)</b>
<b>Net Assets</b>	100.0	<b>213,671,339</b>

## Notes to SVS Janus Growth and 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 \$183,985,755. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$41,625,360. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$44,069,377 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$2,444,017.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (d) Represents collateral held in connection with securities lending.
- (e) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$12,356,745, which is 5.8% of total net assets.

ADR: American Depositary Receipts

GDR: Global Depositary Receipts

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

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$166,012,475) — including \$12,356,745 of securities loaned	\$ 209,335,444
Investment in Daily Assets Fund Institutional (cost \$12,640,857)*	12,640,857
Investment in Scudder Cash Management QP Trust (cost \$3,634,814)	3,634,814
Total investments in securities, at value (cost \$182,288,146)	225,611,115
Cash	10,000
Foreign currency, at value (cost \$177,625)	185,365
Receivable for investments sold	102,172
Dividends receivable	224,660
Interest receivable	9,365
Receivable for Portfolio shares sold	2,478
Due from broker	868,000
Foreign taxes recoverable	737
Other assets	12,562
Total assets	227,026,454

### Liabilities

Unrealized depreciation on forward foreign currency exchange contracts	303,575
Net payable on closed forward foreign currency exchange contracts	45,768
Payable for Portfolio shares redeemed	90,701
Payable upon return of securities loaned	12,640,857
Accrued management fee	165,699
Other accrued expenses and payables	108,515
Total liabilities	13,355,115
<b>Net assets, at value</b>	<b>\$ 213,671,339</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	618,144
Net unrealized appreciation (depreciation) on:	
Investments	43,322,969
Foreign currency related transactions	(295,654)
Accumulated net realized gain (loss)	(51,052,155)
Paid-in capital	221,078,035
<b>Net assets, at value</b>	<b>\$ 213,671,339</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$186,581,095 ÷ 18,888,001 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.88</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$27,090,244 ÷ 2,758,937 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.82</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$52,164)	\$ 2,650,927
Interest	67,361
Interest — Scudder Cash Management QP Trust	80,209
Securities lending income, including income from Daily Assets Fund Institutional	17,553
Total Income	2,816,050
Expenses:	
Management fee	1,912,915
Custodian and accounting fees	97,919
Distribution service fees (Class B)	53,141
Record keeping fees (Class B)	27,962
Auditing	43,423
Legal	51,620
Trustees' fees and expenses	1,962
Reports to shareholders	20,850
Other	7,291
Total expenses, before expense reductions	2,217,083
Expense reductions	(2,269)
Total expenses, after expense reductions	2,214,814
<b>Net investment income (loss)</b>	<b>601,236</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from:	
Investments	9,015,350
Foreign currency related transactions	(218,840)
	8,796,510
Net unrealized appreciation (depreciation) during the period on:	
Investments	12,788,925
Foreign currency related transactions	(60,746)
	12,728,179
<b>Net gain (loss) on investment transactions</b>	<b>21,524,689</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 22,125,925</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 601,236	\$ 694,308
Net realized gain (loss) on investment transactions	8,796,510	(6,450,874)
Net unrealized appreciation (depreciation) on investment transactions during the period	12,728,179	46,205,428
Net increase (decrease) in net assets resulting from operations	22,125,925	40,448,862
Distributions to shareholders from:		
Net investment income		
Class A	—	(1,260,686)
Class B	—	(10,289)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	6,502,623	34,880,490
Reinvestment of distributions	—	1,260,686
Cost of shares redeemed	(28,062,645)	(52,309,879)
Net increase (decrease) in net assets from Class A share transactions	(21,560,022)	(16,168,703)
<b>Class B</b>		
Proceeds from shares sold	11,312,331	15,708,908
Reinvestment of distributions	—	10,289
Cost of shares redeemed	(1,739,333)	(3,045,507)
Net increase (decrease) in net assets from Class B share transactions	9,572,998	12,673,690
<b>Increase (decrease) in net assets</b>	<b>10,138,901</b>	<b>35,682,874</b>
Net assets at beginning of period	203,532,438	167,849,564
Net assets at end of period (including undistributed net investment income of \$618,144 and \$235,748, respectively)	<b>\$ 213,671,339</b>	<b>\$ 203,532,438</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	21,296,089	23,312,732
Shares sold	722,385	4,876,864
Shares issued to shareholders in reinvestment of distributions	—	180,614
Shares redeemed	(3,130,473)	(7,074,121)
Net increase (decrease) in Portfolio shares	(2,408,088)	(2,016,643)
Shares outstanding at end of period	<b>18,888,001</b>	<b>21,296,089</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,676,008	53,142
Shares sold	1,276,437	2,051,610
Shares issued to shareholders in reinvestment of distributions	—	1,472
Shares redeemed	(193,508)	(430,216)
Net increase (decrease) in Portfolio shares	1,082,929	1,622,866
Shares outstanding at end of period	<b>2,758,937</b>	<b>1,676,008</b>

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



# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002 <sup>***</sup>	2001 <sup>a</sup>	2000 <sup>b</sup>
<b>Selected Per Share Data</b>					
	(Restated)				
<b>Net asset value, beginning of period</b>	<b>\$ 8.86</b>	<b>\$ 7.18</b>	<b>\$ 9.05</b>	<b>\$ 10.40</b>	<b>\$ 11.49</b>
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>c</sup>	.03	.03	.04	.08	.12
Net realized and unrealized gain (loss) on investment transactions	.99	1.71	(1.86)	(1.36)	(1.16)
<b>Total from investment operations</b>	<b>1.02</b>	<b>1.74</b>	<b>(1.82)</b>	<b>(1.28)</b>	<b>(1.04)</b>
<i>Less distributions from:</i>					
Net investment income	—	(.06)	(.05)	(.07)	—
Net realized gains on investment transactions	—	—	—	—	(.05)
<b>Total distributions</b>	<b>—</b>	<b>(.06)</b>	<b>(.05)</b>	<b>(.07)</b>	<b>(.05)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.88</b>	<b>\$ 8.86</b>	<b>\$ 7.18</b>	<b>\$ 9.05</b>	<b>\$ 10.40</b>
Total Return (%)	11.51	24.37	(20.22)	(12.28)	(9.18) <sup>d</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	187	189	167	179	104
Ratio of expenses before expense reductions (%)	1.06	1.07	1.04	1.05	1.10
Ratio of expenses after expense reductions (%)	1.06	1.07	1.04	1.05	1.01
Ratio of net investment income (loss) (%)	.34	.40	.54	.90	1.07
Portfolio turnover rate (%)	52	46	57	48	39

<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 period 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> Total return would have been lower had certain expenses not been reduced.

<sup>\*\*\*</sup> Subsequent to December 31, 2002, these numbers have been restated to reflect an adjustment to the value of a security as of December 31, 2002. The effect of this adjustment for the year ended December 31, 2002 was to increase the net asset value per share by \$0.03. The total return was also adjusted from -20.56% to -20.22% in accordance with this change.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a***</sup>
<b>Selected Per Share Data</b>			
	(Restated)		
<b>Net asset value, beginning of period</b>	<b>\$ 8.84</b>	<b>\$ 7.17</b>	<b>\$ 7.96</b>
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	(.01)	— <sup>c</sup>	.02
Net realized and unrealized gain (loss) on investment transactions	.99	1.71	(.81)
<b>Total from investment operations</b>	<b>.98</b>	<b>1.71</b>	<b>(.79)</b>
<i>Less distributions from:</i>			
Net investment income	—	(.04)	—
<b>Net asset value, end of period</b>	<b>\$ 9.82</b>	<b>\$ 8.84</b>	<b>\$ 7.17</b>
Total Return (%)	11.09	23.94	(9.92) <sup>**</sup>

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	27	15	.4
Ratio of expenses (%)	1.44	1.47	1.29*
Ratio of net investment income (loss) (%)	(.04)	(.01)	.48*
Portfolio turnover rate (%)	52	46	57

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

<sup>c</sup> Amount is less than \$.005 per share.

\* Annualized

\*\* Not annualized

<sup>\*\*\*</sup> Subsequent to December 31, 2002, these numbers have been restated to reflect an adjustment to the value of a security as of December 31, 2002. The effect of this adjustment for the year ended December 31, 2002 was to increase the net asset value per share by \$0.03. The total return was also adjusted from -10.30% to -9.92% in accordance with this change.

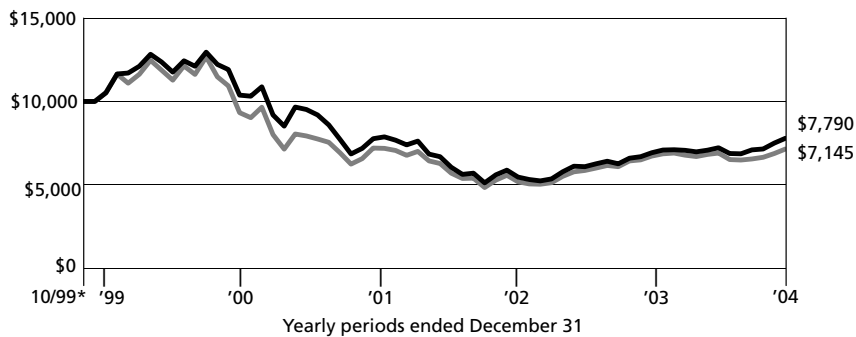
## SVS Janus Growth Opportunities Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Portfolios that emphasize investments in smaller companies may experience greater price volatility. This Portfolio may at times have significant exposure to certain industry groups, which may react similarly to market developments (resulting in greater price volatility). The Portfolio also may have significant exposure to foreign markets (which include risks such as currency fluctuation and political uncertainty). Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in SVS Janus Growth Opportunities Portfolio from 10/29/1999 to 12/31/2004

- SVS Janus Growth Opportunities Portfolio — Class A
- Russell 1000 Growth Index



The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

SVS Janus Growth Opportunities Portfolio		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of \$10,000	\$11,257	\$9,898	\$6,691	\$7,790
	Average annual total return	12.57%	-.34%	-7.72%	-4.71%
Russell 1000 Growth Index					
	Growth of \$10,000	\$10,630	\$9,946	\$6,140	\$7,145
	Average annual total return	6.30%	-.18%	-9.29%	-6.30%
SVS Janus Growth Opportunities Portfolio		1-Year	Life of Class**		
Class B	Growth of \$10,000	\$11,221	\$13,152		
	Average annual total return	12.21%	11.57%		
Russell 1000 Growth Index					
	Growth of \$10,000	\$10,630	\$12,555		
	Average annual total return	6.30%	9.53%		

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on October 29, 1999. Index returns begin on October 31, 1999. Total returns would have been lower for the 5-Year and Life of Portfolio periods for Class A shares if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## SVS Janus Growth Opportunities Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

<b>Actual Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,078.90	\$ 1,078.20
Expenses Paid per \$1,000*	\$ 5.62	\$ 7.65

<b>Hypothetical 5% Portfolio Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,019.66	\$ 1,017.71
Expenses Paid per \$1,000*	\$ 5.46	\$ 7.42

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

<b>Annualized Expense Ratios</b>	<b>Class A</b>	<b>Class B</b>
Scudder Variable Series II — SVS Janus Growth Opportunities Portfolio	1.08%	1.47%

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

## SVS Janus Growth Opportunities Portfolio

The portfolio gained 12.57% (Class A shares, unadjusted for contract charges) for the fiscal year ended December 31, 2004, outperforming its benchmark, the Russell 1000 Growth Index, which returned 6.30% during the period.

Among the portfolio's strongest contributors was package shipper FedEx Corp., which continued to fire on all cylinders despite the wild gyrations in the price of fuel and minimal expansion in its domestic unit.

Internet services leader Yahoo!, Inc. was also a top contributor. Although the initial public offering for search engine developer Google attracted much of the on-line world's attention in the second half of the year, I remained encouraged by Yahoo's positioning.

On the negative side, investor discomfort with the computer chip industry pulled down capital equipment maker Applied Materials, Inc. during the period. Although Applied Materials is one of the premier companies in the semiconductor equipment sector, I reduced the portfolio's stake in the company, redeploying assets from the sale in other, more attractive investment opportunities.

The market's somewhat pessimistic tone about the entire tech sector also pulled down holdings such as Cisco Systems, Inc. Cisco's stock took a particularly hard hit during the third quarter when the networking gear manufacturer offered conservative earnings guidance. Management may be seeing some weakness at the margins, but I believe the company is being cautious instead of hinting at a flaw in its business model and therefore I maintained a reduced the portfolio's position in the stock.

Detractors also included the large drug maker Pfizer, which we liquidated from the portfolio amid concerns over slowing revenue growth, legislative attacks and patent challenges.

Marc Pinto

Portfolio Manager, Janus Capital Management LLC, Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. The portfolio may at times have significant exposure to certain industry groups, which may react similarly to market developments (resulting in greater price volatility). The portfolio also may have significant exposure to foreign markets (which include risks such as currency fluctuation and political uncertainty). Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## SVS Janus Growth Opportunities Portfolio

<b>Asset Allocation</b>	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	96%	98%
Cash Equivalents	4%	2%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents)	<b>12/31/04</b>	<b>12/31/03</b>
Information Technology	25%	34%
Health Care	21%	17%
Consumer Discretionary	20%	18%
Industrials	13%	6%
Financials	10%	17%
Energy	5%	4%
Consumer Staples	4%	4%
Materials	2%	—
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 247. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Janus Growth Opportunities Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 95.9%</b>					
<b>Consumer Discretionary 19.4%</b>					
<b>Hotels Restaurants &amp; Leisure 5.6%</b>					
Hilton Hotels Corp.	104,295	2,371,668			
McDonald's Corp.	75,910	2,433,675			
Royal Caribbean Cruises Ltd.	55,905	3,043,468			
		<b>7,848,811</b>			
<b>Media 3.9%</b>					
Gemstar-TV Guide International, Inc.*	178,190	1,054,885			
Liberty Media Corp. "A"*	109,543	1,202,782			
Time Warner, Inc.*	163,150	3,171,636			
		<b>5,429,303</b>			
<b>Multiline Retail 1.7%</b>					
Target Corp.	46,760	2,428,247			
<b>Specialty Retail 6.4%</b>					
Best Buy Co., Inc.	46,335	2,753,226			
Home Depot, Inc.	89,940	3,844,035			
Staples, Inc.	73,070	2,463,190			
		<b>9,060,451</b>			
<b>Textiles, Apparel &amp; Luxury Goods 1.8%</b>					
NIKE, Inc. "B"	27,350	2,480,371			
<b>Consumer Staples 4.0%</b>					
<b>Beverages 1.5%</b>					
PepsiCo, Inc.	39,530	2,063,466			
<b>Household Products 2.5%</b>					
Procter & Gamble Co.	64,005	3,525,396			
<b>Energy 4.2%</b>					
<b>Energy Equipment &amp; Services 1.3%</b>					
Halliburton Co.	46,965	1,842,907			
<b>Oil &amp; Gas 2.9%</b>					
ExxonMobil Corp.	80,725	4,137,963			
<b>Financials 10.0%</b>					
<b>Capital Markets 1.8%</b>					
Morgan Stanley	45,180	2,508,393			
<b>Consumer Finance 4.6%</b>					
American Express Co.	78,055	4,399,960			
SLM Corp.	37,200	1,986,108			
		<b>6,386,068</b>			
<b>Diversified Financial Services 1.3%</b>					
Countrywide Financial Corp.	51,160	1,893,432			
<b>Insurance 2.3%</b>					
Allstate Corp.	15,665	810,194			
American International Group, Inc.	36,670	2,408,119			
		<b>3,218,313</b>			
<b>Health Care 19.7%</b>					
<b>Biotechnology 5.5%</b>					
Amgen, Inc.*	29,635	1,901,086			
Genentech, Inc.*	106,350	5,789,694			
		<b>7,690,780</b>			
<b>Health Care Equipment &amp; Supplies 4.5%</b>					
Biomet, Inc.	43,495	1,887,248			
Medtronic, Inc.	89,760	4,458,379			
		<b>6,345,627</b>			
<b>Health Care Providers &amp; Services 6.5%</b>					
Caremark Rx, Inc.*	61,140	2,410,750			
UnitedHealth Group, Inc.	75,165	6,616,775			
		<b>9,027,525</b>			
<b>Pharmaceuticals 3.2%</b>					
Eli Lilly & Co.	13,115	744,276			
Sanofi-Aventis (ADR)	94,720	3,793,536			
		<b>4,537,812</b>			
<b>Industrials 12.4%</b>					
<b>Aerospace &amp; Defense 0.7%</b>					
Raytheon Co.	26,435	1,026,471			
<b>Air Freight &amp; Logistics 4.6%</b>					
FedEx Corp.	65,065	6,408,252			
<b>Commercial Services &amp; Supplies 2.0%</b>					
Apollo Group, Inc. "A"*	34,060	2,748,982			
<b>Industrial Conglomerates 5.1%</b>					
General Electric Co.	99,335	3,625,728			
Tyco International Ltd.	100,045	3,575,608			
		<b>7,201,336</b>			
<b>Information Technology 24.4%</b>					
<b>Communications Equipment 5.1%</b>					
Cisco Systems, Inc.*	140,145	2,704,799			
Motorola, Inc.	256,810	4,417,132			
		<b>7,121,931</b>			
<b>Computers &amp; Peripherals 4.1%</b>					
Dell, Inc.*	45,600	1,921,584			
Lexmark International, Inc.*	45,360	3,855,600			
		<b>5,777,184</b>			
<b>Electronic Equipment &amp; Instruments 1.3%</b>					
Samsung Electronics Co., Ltd. (GDR), 144A	8,255	1,807,845			
<b>Internet Software &amp; Services 3.7%</b>					
Yahoo!, Inc.*	137,530	5,182,130			
<b>Semiconductors &amp; Semiconductor Equipment 4.9%</b>					
Applied Materials, Inc.*	79,615	1,361,416			
Freescale Semiconductor, Inc. "B"*	28,355	520,598			
Texas Instruments, Inc.	204,245	5,028,512			
		<b>6,910,526</b>			

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

	Shares	Value (\$)
<b>Software 5.3%</b>		
Intuit, Inc.*	29,045	1,278,270
Microsoft Corp.	229,260	6,123,535
		<b>7,401,805</b>
<b>Materials 1.8%</b>		
<b>Metals &amp; Mining</b>		
Rio Tinto PLC (ADR)	21,085	2,513,543
<b>Total Common Stocks</b> (Cost \$108,687,462)		<b>134,524,870</b>

	Shares	Value (\$)
<b>Cash Equivalents 4.2%</b>		
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$5,926,269)	5,926,269	5,926,269
	% of Net Assets	Value (\$)
<b>Total Investment Portfolio</b> (Cost \$114,613,731) (a)	100.1	140,451,139
<b>Other Assets and Liabilities, Net</b>	(0.1)	<b>(197,001)</b>
<b>Net Assets</b>	100.0	<b>140,254,138</b>

### Notes to SVS Janus Growth Opportunities Portfolio of Investments

\* Non-income producing security.

(a) The cost for federal income tax purposes was \$115,485,699. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$24,965,440. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$26,327,500 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$1,362,060.

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

ADR: American Depositary Receipts

GDR: Global Depositary Receipts

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

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$108,687,462)	\$ 134,524,870
Investments in Scudder Cash Management QP Trust (cost \$5,926,269)	5,926,269
Total investments in securities, at value (cost \$114,613,731)	140,451,139
Receivable for Portfolio shares sold	730
Dividends receivable	86,876
Interest receivable	9,917
Other assets	4,402
<b>Total assets</b>	<b>140,553,064</b>

### Liabilities

Accrued management fee	111,015
Payable for Portfolio shares redeemed	97,087
Other accrued expenses and payables	90,824
<b>Total liabilities</b>	<b>298,926</b>
<b>Net assets, at value</b>	<b>\$ 140,254,138</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	390,216
Net unrealized appreciation (depreciation) on investments	25,837,408
Accumulated net realized gain (loss)	(94,273,346)
Paid-in capital	208,299,860
<b>Net assets, at value</b>	<b>\$ 140,254,138</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$131,904,867 ÷ 16,930,734 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.79</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$8,349,271 ÷ 1,081,562 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 7.72</b>
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## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$22,429)	\$ 1,777,664
Interest — Scudder Cash Management QP Trust	62,780
Securities lending income, including income from Daily Assets Fund Institutional	18,197
<b>Total Income</b>	<b>1,858,641</b>
Expenses:	
Management fee	1,285,655
Custodian and accounting fees	74,542
Distribution service fees (Class B)	17,186
Record keeping fees (Class B)	9,344
Auditing	50,258
Legal	4,592
Trustees' fees and expenses	5,629
Reports to shareholder	6,741
Registration fees	6,565
Other	9,019
Total expenses, before expense reductions	1,469,531
Expense reduction	(1,728)
Total expenses, after expense reduction	1,467,803
<b>Net investment income (loss)</b>	<b>390,838</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	2,198,797
Net unrealized appreciation (depreciation) during the period on investments	13,452,735
<b>Net gain (loss) on investment transactions</b>	<b>15,651,532</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 16,042,370</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 390,838	\$ (226,725)
Net realized gain (loss) on investment transactions	2,198,797	(16,015,858)
Net unrealized appreciation (depreciation) on investment transactions during the period	13,452,735	46,344,783
Net increase (decrease) in net assets resulting from operations	16,042,370	30,102,200
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	2,971,778	7,945,670
Cost of shares redeemed	(18,214,445)	(22,894,437)
Net increase (decrease) in net assets from Class A share transactions	(15,242,667)	(14,948,767)
<b>Class B</b>		
Proceeds from shares sold	2,248,669	5,021,617
Cost of shares redeemed	(382,089)	(370,373)
Net increase (decrease) in net assets from Class B share transactions	1,866,580	4,651,244
<b>Increase (decrease) in net assets</b>	<b>2,666,283</b>	<b>19,804,677</b>
Net assets at beginning of period	137,587,855	117,783,178
Net assets at end of period (including undistributed net investment income and accumulated net investment loss of \$390,216 and \$622, respectively)	<b>\$ 140,254,138</b>	<b>\$ 137,587,855</b>
<b>Other Information</b>		
<b>Class A</b>		
Shares outstanding at beginning of period	19,085,611	21,572,540
Shares sold	413,736	1,334,121
Shares redeemed	(2,568,613)	(3,821,050)
Net increase (decrease) in Portfolio shares	(2,154,877)	(2,486,929)
Shares outstanding at end of period	<b>16,930,734</b>	<b>19,085,611</b>
<b>Class B</b>		
Shares outstanding at beginning of period	812,791	31,870
Shares sold	322,383	838,111
Shares redeemed	(53,612)	(57,190)
Net increase (decrease) in Portfolio shares	268,771	780,921
Shares outstanding at end of period	<b>1,081,562</b>	<b>812,791</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001	2000 <sup>a</sup>
<b>Selected Per Share Data</b>					
Net asset value, beginning of period	\$ 6.92	\$ 5.45	\$ 7.86	\$ 10.31	\$ 11.64
<i>Income (loss) from investment operations:</i>					
Net investment income (loss) <sup>b</sup>	.02	(.01)	(.01)	(.03)	(.02)
Net realized and unrealized gain (loss) on investment transactions	.85	1.48	(2.40)	(2.42)	(1.31)
<b>Total from investment operations</b>	<b>.87</b>	<b>1.47</b>	<b>(2.41)</b>	<b>(2.45)</b>	<b>(1.33)</b>
Net asset value, end of period	\$ 7.79	\$ 6.92	\$ 5.45	\$ 7.86	\$ 10.31
Total Return (%)	12.57	26.97	(30.53)	(23.76)	(11.42) <sup>c</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (\$ millions)	132	132	118	164	139
Ratio of expenses before expense reductions (%)	1.06	1.07	1.01	1.11	1.06
Ratio of expenses after expense reductions (%)	1.06	1.07	1.01	1.10	1.01
Ratio of net investment income (loss) (%)	.31	(.17)	(.10)	(.31)	(.20)
Portfolio turnover rate (%)	58	50	48	34	14

<sup>a</sup> On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Share and per share information, for the period 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> Based on average shares outstanding during the period.

<sup>c</sup> Total return would have been lower had certain expenses not been reduced.

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 6.88	\$ 5.44	\$ 5.87
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	(.01)	(.04)	(.01)
Net realized and unrealized gain (loss) on investment transactions	.85	1.48	(.42)
<b>Total from investment operations</b>	<b>.84</b>	<b>1.44</b>	<b>(.43)</b>
Net asset value, end of period	\$ 7.72	\$ 6.88	\$ 5.44
Total Return (%)	12.21	26.47	(7.33)**
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	8	6	.2
Ratio of expenses (%)	1.45	1.46	1.29*
Ratio of net investment income (loss) (%)	(.08)	(.56)	(.49)*
Portfolio turnover rate (%)	58	50	48

<sup>a</sup> For the period July 1, 2002 (commencement of operations 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

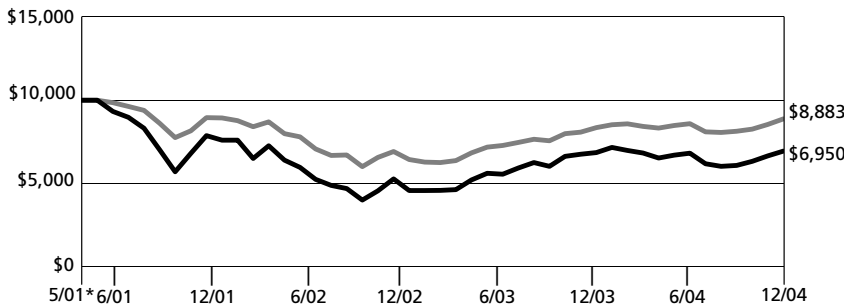
All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

The Portfolio may concentrate investments in specific sectors, which creates special risk considerations. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in SVS Oak Strategic Equity Portfolio from 5/1/2001 to 12/31/2004

■ SVS Oak Strategic Equity Portfolio — Class A

■ Russell 1000 Growth Index



The Russell 1000 Growth Index is an unmanaged index which consists of those stocks in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvested dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

SVS Oak Strategic Equity Portfolio	1-Year	3-Year	Life of Portfolio*
<b>Class A</b>			
Growth of \$10,000	\$10,131	\$9,145	\$6,950
Average annual total return	1.31%	-2.94%	-9.44%
<b>Russell 1000 Growth Index</b>			
Growth of \$10,000	\$10,630	\$9,946	\$8,883
Average annual total return	6.30%	-1.18%	-3.18%
SVS Oak Strategic Equity Portfolio	1-Year	Life of Class**	
<b>Class B</b>			
Growth of \$10,000	\$10,088	\$13,671	
Average annual total return	.88%	13.31%	
<b>Russell 1000 Growth Index</b>			
Growth of \$10,000	\$10,630	\$12,555	
Average annual total return	6.30%	9.53%	

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 2001. Index returns begin April 30, 2001. Total returns would have been lower for the 3-Year Life of Portfolio period for Class A shares if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## SVS Oak Strategic Equity Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000

(for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,019.10	\$ 1,016.20
Expenses Paid per \$1,000*	\$ 5.77	\$ 7.67
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,019.49	\$ 1,017.59
Expenses Paid per \$1,000*	\$ 5.77	\$ 7.68

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — SVS Oak Strategic Equity Portfolio	1.13%	1.51%

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

## SVS Oak Strategic Equity Portfolio

Whereas the portfolio returned 1.31% (Class A shares, unadjusted for sales charges), its benchmark, the Russell 1000 Growth Index, returned 6.30% for the 12-month period ended December 31, 2004. The portfolio underperformed in 2004 due to its lack of exposure to the energy, materials and industrial sectors. These sectors benefited from the sharp rise in commodity prices that typically occurs in the early stages of an economic recovery. Oak Associates does not manage the portfolio in relationship to a benchmark and, therefore, did not have exposure to these groups. Oak has avoided these sectors as we believe their performance is tied to the short-term reinflation of commodities — which is inconsistent with our three-to-five year investment time horizon.

The relative performance disparity was also exacerbated by the portfolio's overweight in information technology compared with the benchmark Russell 1000 Growth Index. Within information technology, semiconductor stocks in particular weighed on performance as companies such as PMC-Sierra, Intersil and Xilinx\* suffered from inventory surplus concerns following a robust 2003. Storage software vendor Veritas Software\* also hampered performance after the company reported weak second-quarter sales during the third quarter. This announcement was not well received following recent management turnover in the company and concerns regarding management's credibility. Veritas was ultimately sold from the portfolio.

Despite being underweight in health care compared with the benchmark, weakness in Cardinal Health\* caused the portfolio's health care weighting to underperform the benchmark. Cardinal, a drug distribution company, has struggled not only with meeting earnings forecasts, but also with the transition to a fee-for-service business model. Pfizer, Inc., along with other large pharmaceutical companies, suffered when the Food and Drug Administration raised a red flag on the Cox-2 class of arthritis drugs.

On a positive note, on-line auctioneer eBay, Inc. helped offset the weaknesses in technology and health care by propelling the portfolio's consumer discretionary sector performance significantly higher than that of the benchmark.

James D. Oelschlager

Portfolio Manager

Oak Associates, Ltd., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio may concentrate investments in specific sectors, which creates special risk considerations. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 1000 Growth Index is an unmanaged, capitalization-weighted index which consists of those securities in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly into an index.*

\* This security was not held in the portfolio at the end of the reporting period.

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

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## SVS Oak Strategic Equity Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	99%	97%
Cash Equivalents	1%	3%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Information Technology	56%	56%
Health Care	15%	18%
Financials	14%	21%
Consumer Discretionary	9%	5%
Industrials	6%	—
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 256. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Oak Strategic Equity Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 99.5%</b>					
<b>Consumer Discretionary 9.1%</b>					
<b>Household Durables 2.2%</b>					
Harman International Industries, Inc.	16,000	2,032,000			
<b>Internet &amp; Catalog Retail 6.9%</b>					
eBay, Inc.*	55,500	6,453,540			
<b>Financials 14.2%</b>					
<b>Capital Markets 5.8%</b>					
Charles Schwab Corp.	451,400	5,398,744			
<b>Consumer Finance 4.5%</b>					
MBNA Corp.	147,300	4,152,387			
<b>Diversified Financial Services 3.9%</b>					
Citigroup, Inc.	74,000	3,565,320			
<b>Health Care 15.0%</b>					
<b>Biotechnology 6.6%</b>					
Affymetrix, Inc.* (e)	57,000	2,083,350			
Amgen, Inc.*	63,000	4,041,450			
		<b>6,124,800</b>			
<b>Health Care Equipment &amp; Supplies 4.8%</b>					
Medtronic, Inc.	89,600	4,450,432			
<b>Pharmaceuticals 3.6%</b>					
Pfizer, Inc.	123,100	3,310,159			
<b>Industrials 5.8%</b>					
<b>Air Freight &amp; Logistics 4.0%</b>					
United Parcel Service, Inc. "B"	43,000	3,674,780			
<b>Electrical Equipment 1.8%</b>					
Rockwell Automation, Inc.	34,000	1,684,700			
<b>Information Technology 55.4%</b>					
<b>Communications Equipment 11.6%</b>					
Cisco Systems, Inc.*	174,600	3,369,780			
Juniper Networks, Inc.*	145,300	3,950,707			
QUALCOMM, Inc.*	80,000	3,392,000			
		<b>10,712,487</b>			
<b>Computers &amp; Peripherals 12.0%</b>					
Avid Technology, Inc.*	33,000	2,037,750			
Dell, Inc.*	111,600	4,702,824			
EMC Corp.*	292,600	4,350,962			
		<b>11,091,536</b>			
<b>Electronic Equipment &amp; Instruments 2.3%</b>					
Symbol Technologies, Inc.	124,000	2,145,200			
<b>IT Consulting &amp; Services 5.1%</b>					
Cognizant Technology Solutions Corp. "A"*	110,600	4,681,698			
<b>Semiconductors &amp; Semiconductor Equipment 11.8%</b>					
Applied Materials, Inc.*	206,700	3,534,570			
Linear Technology Corp.	102,400	3,969,024			
Maxim Integrated Products, Inc.	81,650	3,461,143			
		<b>10,964,737</b>			
<b>Software 12.6%</b>					
Electronic Arts, Inc.*	70,000	4,317,600			
Microsoft Corp.	157,300	4,201,484			
Symantec Corp.*	122,000	3,142,720			
		<b>11,661,804</b>			
<b>Total Common Stocks (Cost \$79,704,014)</b>					<b>92,104,324</b>
<b>Securities Lending Collateral 2.1%</b>					
Daily Assets Fund Institutional, 2.25% (c) (d) (Cost \$1,936,575)	1,936,575				<b>1,936,575</b>
<b>Cash Equivalents 0.7%</b>					
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$621,021)	621,021				<b>621,021</b>
			<b>% of</b>		
			<b>Net Assets</b>		<b>Value (\$)</b>
<b>Total Investment Portfolio</b> (Cost \$82,261,610) (a)				102.3	<b>94,661,920</b>
<b>Other Assets and Liabilities, Net</b>				(2.3)	<b>(2,150,741)</b>
<b>Net Assets</b>				100.0	<b>92,511,179</b>

## Notes to SVS Oak Strategic Equity Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$82,256,010. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$12,405,910. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$14,706,981 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$2,301,071.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (d) Represents collateral held in connection with securities lending.
- (e) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$1,875,015, which is 2.0% of net assets.

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

# Financial Statements

## Statement of Assets and Liabilities

as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$79,704,014) — including \$1,875,015 of securities loaned	\$ 92,104,324
Investment in Daily Assets Fund Institutional (cost \$1,936,575)*	1,936,575
Investment in Scudder Cash Management QP Trust (cost \$621,021)	621,021
Total investments in securities, at value (cost \$82,261,610)	94,661,920
Receivable for investments sold	3,976
Dividends receivable	35,316
Interest receivable	1,622
Other assets	3,746
<b>Total assets</b>	<b>94,706,580</b>

### Liabilities

Payable for Portfolio shares redeemed	109,757
Payable upon return of securities loaned	1,936,575
Accrued management fee	77,588
Other accrued expenses and payables	71,481
<b>Total liabilities</b>	<b>2,195,401</b>
<b>Net assets, at value</b>	<b>\$ 92,511,179</b>

### Net Assets

Net assets consist of:	
Undistributed net investment income	3,260
Net unrealized appreciation (depreciation) on investments	12,400,310
Accumulated net realized gain (loss)	(10,928,202)
Paid-in capital	91,035,811
<b>Net assets, at value</b>	<b>\$ 92,511,179</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$70,860,416 ÷ 10,189,476 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 6.95</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$21,650,763 ÷ 3,140,946 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 6.89</b>
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\* Represents collateral on securities loaned.

## Statement of Operations

for the year ended December 31, 2004

### Investment Income

Income:	
Dividends	\$ 1,030,386
Interest — Scudder Cash Management QP Trust	30,418
Securities lending income, including income from Daily Assets Fund Institutional	4,504
<b>Total Income</b>	<b>1,065,308</b>
Expenses:	
Management fee	854,061
Custodian and accounting fees	64,244
Distribution service fees (Class B)	42,282
Record keeping fees (Class B)	21,848
Auditing	44,604
Legal	14,366
Trustees' fees and expenses	1,596
Reports to shareholders	9,176
Other	5,381
<b>Total expenses, before expense reductions</b>	<b>1,057,558</b>
<b>Expense reductions</b>	<b>(1,365)</b>
<b>Total expenses, after expense reductions</b>	<b>1,056,193</b>
<b>Net investment income (loss)</b>	<b>9,115</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	(429,310)
Net unrealized appreciation (depreciation) during the period on investments	935,994
<b>Net gain (loss) on investment transactions</b>	<b>506,684</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 515,799</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ 9,115	\$ (303,416)
Net realized gain (loss) on investment transactions	(429,310)	(4,050,440)
Net unrealized appreciation (depreciation) on investment transactions during the period	935,994	27,866,046
Net increase (decrease) in net assets resulting from operations	515,799	23,512,190
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	11,773,909	23,109,017
Cost of shares redeemed	(16,798,283)	(9,960,954)
Net increase (decrease) in net assets from Class A share transactions	(5,024,374)	13,148,063
<b>Class B</b>		
Proceeds from shares sold	12,325,908	8,766,882
Cost of shares redeemed	(1,539,908)	(230,435)
Net increase (decrease) in net assets from Class B share transactions	10,786,000	8,536,447
<b>Increase (decrease) in net assets</b>	<b>6,277,425</b>	<b>45,196,700</b>
Net assets at beginning of period	86,233,754	41,037,054
Net assets at end of period (including undistributed net investment income and accumulated net investment loss of \$3,260 and \$255, respectively)	\$ <b>92,511,179</b>	\$ <b>86,233,754</b>

### Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	11,043,224	8,877,415
Shares sold	1,718,999	3,930,253
Shares redeemed	(2,572,747)	(1,764,444)
Net increase (decrease) in Portfolio shares	(853,748)	2,165,809
Shares outstanding at end of period	<b>10,189,476</b>	<b>11,043,224</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,533,571	77,050
Shares sold	1,851,499	1,494,172
Shares redeemed	(244,124)	(37,651)
Net increase (decrease) in Portfolio shares	1,607,375	1,456,521
Shares outstanding at end of period	<b>3,140,946</b>	<b>1,533,571</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001 <sup>a</sup>
<b>Selected Per Share Data</b>				
Net asset value, beginning of period	\$ 6.86	\$ 4.58	\$ 7.60	\$ 10.00
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>b</sup>	.01	(.03)	(.02)	(.02)
Net realized and unrealized gain (loss) on investment transactions	.08	2.31	(3.00)	(2.38)
<b>Total from investment operations</b>	.09	2.28	(3.02)	(2.40)
Net asset value, end of period	\$ 6.95	\$ 6.86	\$ 4.58	\$ 7.60
Total Return (%)	1.31	49.78	(39.74)	(24.00) <sup>c**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>				
Net assets, end of period (\$ millions)	71	76	41	44
Ratio of expenses before expense reductions (%)	1.10	1.13	.96	1.44*
Ratio of expenses after expense reductions (%)	1.10	1.13	.96	1.15*
Ratio of net investment income (loss) (%)	.08	(.48)	(.30)	(.43)*
Portfolio turnover rate (%)	39	6	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

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 6.83	\$ 4.58	\$ 5.04
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	(.02)	(.06)	(.02)
Net realized and unrealized gain (loss) on investment transactions	.08	2.31	(.44)
<b>Total from investment operations</b>	.06	2.25	(.46)
Net asset value, end of period	\$ 6.89	\$ 6.83	\$ 4.58
Total Return (%)	.88	49.13	(9.13) <sup>**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	22	10	.4
Ratio of expenses (%)	1.49	1.52	1.21*
Ratio of net investment income (loss) (%)	(.20)	(.87)	(.68)*
Portfolio turnover rate (%)	39	6	16

<sup>a</sup> For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

<sup>b</sup> Based on average shares outstanding during the period.

\* Annualized

\*\* Not annualized

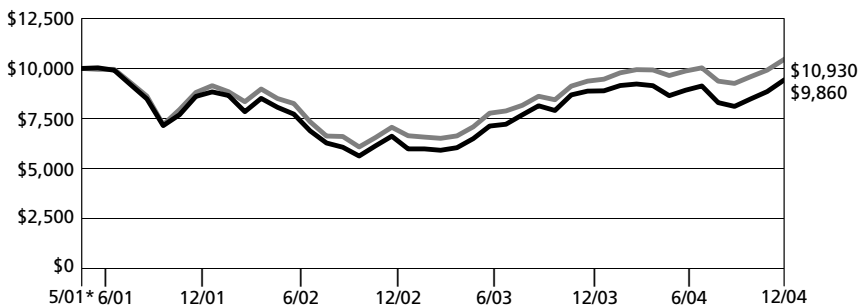
## SVS Turner Mid Cap Growth Portfolio

All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio is an investment option. These charges and fees will reduce returns.

Stocks of medium-sized companies involve greater than securities of larger, more-established companies risk, as they often have limited product lines, markets or financial resources and may be subject to more erratic and abrupt market movements. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

### Growth of an Assumed \$10,000 Investment in SVS Turner Mid Cap Growth Portfolio from 5/1/2001 to 12/31/2004

- SVS Turner Mid Cap Growth Portfolio — Class A
- Russell Midcap 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, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

### Comparative Results

SVS Turner Mid Cap Growth Portfolio	1-Year	3-Year	Life of Portfolio*
<b>Class A</b>			
Growth of \$10,000	\$11,104	\$11,166	\$9,860
Average annual total return	11.04%	3.75%	-.38%
<b>Russell Midcap Growth Index</b>			
Growth of \$10,000	\$11,548	\$11,964	\$10,930
Average annual total return	15.48%	6.16%	2.45%
SVS Turner Mid Cap Growth Portfolio	1-Year	Life of Class**	
<b>Class B</b>			
Growth of \$10,000	\$11,063	\$14,818	
Average annual total return	10.63%	17.02%	
<b>Russell Midcap Growth Index</b>			
Growth of \$10,000	\$11,548	\$14,900	
Average annual total return	15.48%	17.29%	

The growth of \$10,000 is cumulative.

\* The Portfolio commenced operations on May 1, 2001. Index returns begin April 30, 2001. Total returns would have been lower for the 3-Year and Life of Portfolio period for Class A shares if the Portfolio's expenses were not maintained.

\*\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns begin June 30, 2002.

# Information About Your Portfolio's Expenses

## SVS Turner Mid Cap Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of \$1,000 made at the beginning of the six-month period ended December 31, 2004.

The tables illustrate your Portfolio's expenses in two ways:

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by

\$1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per \$1,000" line under the share class you hold.

- Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per \$1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

### Expenses and Value of a \$1,000 Investment for the six months ended December 31, 2004

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,081.10	\$ 1,079.50
Expenses Paid per \$1,000*	\$ 5.67	\$ 7.52
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/04	\$ 1,000.00	\$ 1,000.00
Ending Account Value 12/31/04	\$ 1,019.75	\$ 1,017.97
Expenses Paid per \$1,000*	\$ 5.50	\$ 7.30

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

Annualized Expense Ratios	Class A	Class B
Scudder Variable Series II — SVS Turner Mid Cap Growth Portfolio	1.08%	1.43%

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

## SVS Turner Mid Cap Growth Portfolio

For the 12-month period ended December 31, 2004, the portfolio recorded a gain of 11.04% (Class A shares, unadjusted for contract charges), versus the 15.48% gain posted by the Russell Midcap Growth Index. Four of the portfolio's 10 sector positions beat their corresponding index sectors. Contributing the most to performance were growth-oriented holdings in the technology sector. Stocks that added value included VeriSign, Inc. and Monster Worldwide, Inc. The portfolio's holdings in the health care sector detracted the most from performance.

The stock market ended the period with a strong finishing kick. We think much of the gains for 2004 can be credited to better-than-expected earnings. Also driving results was a positive change in investor psychology. Early in the year, investors were notably fretful about several issues: the global war on terror, rising oil prices, the Federal Reserve Board's hiking of short-term interest rates, the presidential campaign and mixed economic signals, among others. However, as oil prices stabilized, as the Fed's five rate hikes proved temperate, as the US election proceeded with few snags and as economic news on balance remained favorable, bearishness gradually morphed into bullishness, and money flowed into stocks.

We think that a combination of moderate economic growth, low inflation, modest interest rates, reasonable equity valuations, corporate America's cash hoard of \$1 trillion available for acquisitions and share buybacks, and steadily rising corporate profits should benefit the stock market in 2005.

Christopher K. McHugh

William C. McVail

Robert E. Turner

Co-Managers

Turner Investment Partners, Inc., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

Stocks of medium-sized companies involve greater risks than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be subject to more erratic and abrupt market movements. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*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, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of December 31, 2004, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## SVS Turner Mid Cap Growth Portfolio

<b>Asset Allocation</b> (Excludes Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Common Stocks	99%	97%
Cash Equivalents	1%	3%
	100%	100%

<b>Sector Diversification</b> (Excludes Cash Equivalents and Securities Lending Collateral)	<b>12/31/04</b>	<b>12/31/03</b>
Information Technology	31%	33%
Health Care	19%	20%
Consumer Discretionary	18%	16%
Industrials	11%	11%
Financials	9%	8%
Energy	5%	3%
Materials	3%	4%
Telecommunication Services	2%	2%
Consumer Staples	2%	2%
Utilities	—	1%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 264. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to [scudder.com](http://scudder.com) on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Turner Mid Cap Growth Portfolio

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 99.5%</b>					
<b>Consumer Discretionary 18.0%</b>					
<b>Hotels Restaurants &amp; Leisure 8.4%</b>					
Marriott International, Inc. "A"	35,390	2,228,862			
MGM MIRAGE*	19,610	1,426,431			
P.F. Chang's China Bistro, Inc.* (e)	12,310	693,669			
Scientific Games Corp. "A"*	37,170	886,133			
Starwood Hotels & Resorts Worldwide, Inc.	19,710	1,151,064			
Station Casinos, Inc.	23,840	1,303,571			
WMS Industries, Inc.* (e)	30,940	1,037,728			
Wynn Resorts Ltd.* (e)	15,670	1,048,636			
YUM! Brands, Inc.	42,970	2,027,325			
		<b>11,803,419</b>			
<b>Household Durables 0.5%</b>					
Harman International Industries, Inc.	5,370	681,990			
<b>Internet &amp; Catalog Retail 0.5%</b>					
Overstock.com, Inc.* (e)	10,910	752,790			
<b>Media 1.1%</b>					
DreamWorks Animation SKG, Inc. "A"*	23,900	896,489			
Sirius Satellite Radio, Inc.* (e)	79,900	611,235			
		<b>1,507,724</b>			
<b>Specialty Retail 5.6%</b>					
American Eagle Outfitters, Inc.	15,960	751,716			
Bed Bath & Beyond, Inc.*	48,010	1,912,238			
Chico's FAS, Inc.*	36,720	1,671,862			
RadioShack Corp.	32,080	1,054,790			
Urban Outfitters, Inc.*	23,530	1,044,732			
Williams-Sonoma, Inc.*	42,350	1,483,944			
		<b>7,919,282</b>			
<b>Textiles, Apparel &amp; Luxury Goods 1.9%</b>					
Coach, Inc.*	48,860	2,755,704			
<b>Consumer Staples 2.4%</b>					
<b>Beverages 0.5%</b>					
Constellation Brands, Inc. "A"*	14,860	691,139			
<b>Food &amp; Staples Retailing 0.5%</b>					
Whole Foods Market, Inc.	7,630	727,520			
<b>Food Products 0.7%</b>					
McCormick & Co, Inc.	24,620	950,332			
<b>Household Products 0.7%</b>					
Clorox Co.	16,690	983,542			
<b>Energy 4.7%</b>					
<b>Energy Equipment &amp; Services 2.2%</b>					
BJ Services Co.	15,180	706,477			
Grant Prideco, Inc.*	31,470	630,973			
Smith International, Inc.*	12,960	705,154			
Transocean, Inc.*	25,340	1,074,163			
		<b>3,116,767</b>			
<b>Oil &amp; Gas 2.5%</b>					
Ashland, Inc.	14,710	858,770			
Range Resources Corp. (e)	47,570	973,282			
Ultra Petroleum Corp.*	7,890	379,746			
XTO Energy, Inc.	36,942	1,307,008			
		<b>3,518,806</b>			
<b>Financials 8.6%</b>					
<b>Banks 2.5%</b>					
City National Corp.	11,300	798,345			
Silicon Valley Bancshares* (e)	17,100	766,422			
Sovereign Bancorp, Inc.	42,950	968,523			
UCBH Holdings, Inc.	23,120	1,059,358			
		<b>3,592,648</b>			
<b>Capital Markets 4.0%</b>					
Bear Stearns Companies, Inc.	6,220	636,368			
E*TRADE Financial Corp.*	116,650	1,743,917			
Northern Trust Corp.	17,360	843,349			
SEI Investments Co.	14,490	607,566			
T. Rowe Price Group, Inc.	28,220	1,755,284			
		<b>5,586,484</b>			
<b>Diversified Financial Services 2.1%</b>					
Affiliated Managers Group, Inc.* (e)	18,824	1,275,138			
Ameritrade Holding Corp.*	55,350	787,077			
Doral Financial Corp.	17,580	865,815			
		<b>2,928,030</b>			
<b>Health Care 19.0%</b>					
<b>Biotechnology 3.0%</b>					
Eyetech Pharmaceuticals, Inc.* (e)	15,800	718,900			
Genzyme Corp.*	27,950	1,623,057			
MedImmune, Inc.*	25,730	697,540			
Neurocrine Biosciences, Inc.* (e)	23,520	1,159,536			
		<b>4,199,033</b>			
<b>Health Care Equipment &amp; Supplies 8.2%</b>					
Bausch & Lomb, Inc.	23,370	1,506,430			
Biomet, Inc.	31,610	1,371,558			
C.R. Bard, Inc.	31,700	2,028,166			
Cooper Companies, Inc. (e)	14,930	1,053,909			
Dade Behring Holdings, Inc.*	12,860	720,160			
Fisher Scientific International, Inc.*	32,180	2,007,388			
INAMED Corp.*	24,500	1,549,625			
Waters Corp.*	26,980	1,262,394			
		<b>11,499,630</b>			
<b>Health Care Providers &amp; Services 5.4%</b>					
AMERIGROUP Corp.*	9,550	722,553			
Laboratory Corp. of America Holdings*	20,720	1,032,271			
Manor Care, Inc.	20,410	723,126			
Medco Health Solutions, Inc.*	19,820	824,512			
PacifiCare Health Systems, Inc.*	21,260	1,201,615			
Patterson Companies, Inc.* (e)	24,420	1,059,584			
WellPoint, Inc.*	18,330	2,107,950			
		<b>7,671,611</b>			

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

	Shares	Value (\$)
<b>Pharmaceuticals 2.4%</b>		
Elan Corp. PLC (ADR)* (e)	24,970	680,432
Medicines Co.* (e)	27,780	800,064
MGI Pharma, Inc.* (e)	38,680	1,083,427
Sepracor, Inc.* (e)	14,400	854,928
		<b>3,418,851</b>
<b>Industrials 10.6%</b>		
<b>Air Freight &amp; Couriers 0.7%</b>		
Expeditors International of Washington, Inc.	18,690	1,044,397
<b>Airlines 1.1%</b>		
Southwest Airlines Co.	96,870	1,577,044
<b>Building Products 0.7%</b>		
American Standard Companies, Inc.*	23,430	968,128
<b>Commercial Services &amp; Supplies 3.2%</b>		
ChoicePoint, Inc.*	21,660	996,143
Monster Worldwide, Inc.*	61,860	2,080,971
Robert Half International, Inc.	48,810	1,436,478
		<b>4,513,592</b>
<b>Electrical Equipment 2.0%</b>		
Rockwell Automation, Inc.	33,830	1,676,276
Roper Industries, Inc.	18,750	1,139,438
		<b>2,815,714</b>
<b>Machinery 1.5%</b>		
Eaton Corp.	10,130	733,007
Pentair, Inc.	31,660	1,379,109
		<b>2,112,116</b>
<b>Marine 0.7%</b>		
Teekay Shipping Corp. (e)	21,570	908,313
<b>Road &amp; Rail 0.7%</b>		
Yellow Roadway Corp.*	16,750	933,142
<b>Information Technology 31.1%</b>		
<b>Communications Equipment 5.2%</b>		
Comverse Technologies, Inc.*	73,400	1,794,630
Juniper Networks, Inc.* (e)	113,330	3,081,443
Polycom, Inc.*	73,880	1,722,881
Sonus Networks, Inc.* (e)	127,700	731,721
		<b>7,330,675</b>
<b>Computers &amp; Peripherals 2.6%</b>		
Apple Computer, Inc.*	36,850	2,373,140
Avid Technology, Inc.*	21,360	1,318,980
		<b>3,692,120</b>
<b>Electronic Equipment &amp; Instruments 3.2%</b>		
Benchmark Electronics, Inc.*	23,310	794,871
CDW Corp.	20,760	1,377,426
Cogent, Inc.* (e)	21,820	720,060
Sanmina-SCI Corp.*	186,920	1,583,213
		<b>4,475,570</b>
<b>Internet Software &amp; Services 4.3%</b>		
Ask Jeeves, Inc.* (e)	39,470	1,055,822
CNET Networks, Inc.* (e)	101,320	1,137,824

	Shares	Value (\$)
F5 Networks, Inc.* (e)	34,010	1,656,967
VeriSign, Inc.*	64,430	2,159,694
		<b>6,010,307</b>
<b>IT Consulting &amp; Services 4.6%</b>		
Alliance Data Systems Corp.*	26,290	1,248,249
Ariba, Inc.* (e)	60,430	1,003,138
CheckFree Corp.*	32,710	1,245,597
Cognizant Technology Solutions Corp. "A"*	30,300	1,282,599
Fiserv, Inc.*	14,460	581,147
Global Payments, Inc. (e)	17,920	1,049,037
		<b>6,409,767</b>
<b>Semiconductors &amp; Semiconductor Equipment 6.9%</b>		
Advanced Micro Devices, Inc.*	67,230	1,480,405
Cymer, Inc.* (e)	39,190	1,157,673
KLA-Tencor Corp.*	33,680	1,568,814
Lam Research Corp.*	65,910	1,905,458
Marvell Technology Group Ltd.*	49,750	1,764,632
PMC-Sierra, Inc.*	169,760	1,909,800
		<b>9,786,782</b>
<b>Software 4.3%</b>		
Amdocs Ltd.*	33,280	873,600
Citrix Systems, Inc.*	41,610	1,020,693
Macromedia, Inc.*	34,730	1,080,798
McAfee, Inc.*	50,020	1,447,079
TIBCO Software, Inc.*	122,740	1,637,351
		<b>6,059,521</b>
<b>Materials 2.6%</b>		
<b>Chemicals 1.2%</b>		
Eastman Chemical Co. (e)	11,780	680,059
Lyondell Chemical Co.	34,030	984,148
		<b>1,664,207</b>
<b>Metals &amp; Mining 1.4%</b>		
AK Steel Holding Corp.* (e)	55,560	803,953
Allegheny Technologies, Inc.	32,140	696,474
Peabody Energy Corp.	7,020	567,988
		<b>2,068,415</b>
<b>Telecommunication Services 2.5%</b>		
<b>Wireless Telecommunication Services</b>		
Alamosa Holdings, Inc.* (e)	59,630	743,586
American Tower, Inc. "A"*	41,040	755,136
NII Holdings, Inc.* (e)	20,640	979,368
Western Wireless Corp. "A"*	35,070	1,027,551
		<b>3,505,641</b>
<b>Total Common Stocks (Cost \$110,101,433)</b>		<b>140,180,753</b>
<b>Securities Lending Collateral 15.1%</b>		
Daily Assets Fund Institutional, 2.25% (c) (d) (Cost \$21,183,207)	21,183,207	21,183,207

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



	Shares	Value (\$)		% of Net Assets	Value (\$)
<b>Cash Equivalents 0.7%</b>					
Scudder Cash Management QP Trust, 2.24% (b) (Cost \$1,025,473)	1,025,473	1,025,473	<b>Total Investment Portfolio</b> (Cost \$132,310,113) (a)	115.3	<b>162,389,433</b>
			<b>Other Assets and Liabilities, Net</b>	(15.3)	<b>(21,504,076)</b>
			<b>Net Assets</b>	100.0	<b>140,885,357</b>

### Notes to SVS Turner Mid Cap Growth Portfolio of Investments

\* Non-income producing security.

- (a) The cost for federal income tax purposes was \$132,689,192. At December 31, 2004, net unrealized appreciation for all securities based on tax cost was \$29,700,241. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$30,177,447 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$477,206.
- (b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.
- (d) Represents collateral held in connection with securities lending.
- (e) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2004 amounted to \$20,716,371, which is 14.7% of net assets.

ADR: American Depositary Receipt

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

# Financial Statements

## Statement of Assets and Liabilities as of December 31, 2004

### Assets

Investments:	
Investments in securities, at value (cost \$110,101,433) — including \$20,716,371 of securities on loan	\$ 140,180,753
Investment in Daily Assets Fund Institutional (cost \$21,183,207)*	21,183,207
Investment in Scudder Cash Management QP Trust (cost \$1,025,473)	1,025,473
<b>Total Investments in securities, at value (cost \$132,310,113)</b>	<b>162,389,433</b>
Dividends receivable	49,568
Interest receivable	6,144
Receivable for Portfolio shares sold	34,471
Other assets	3,872
<b>Total assets</b>	<b>162,483,488</b>

### Liabilities

Payable upon return of securities loaned	21,183,207
Payable for investments purchased	151,354
Payable for Portfolio shares redeemed	49,510
Accrued management fee	121,563
Other accrued expenses and payables	92,497
<b>Total liabilities</b>	<b>21,598,131</b>
<b>Net assets, at value</b>	<b>\$ 140,885,357</b>

### Net Assets

Net assets consist of:	
Accumulated net investment loss	(301)
Net unrealized appreciation (depreciation) on investments	30,079,320
Accumulated net realized gain (loss)	(4,149,095)
Paid-in capital	114,955,433
<b>Net assets, at value</b>	<b>\$ 140,885,357</b>

### Class A

<b>Net Asset Value</b> , offering and redemption price per share (\$117,554,535 ÷ 11,918,058 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.86</b>
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### Class B

<b>Net Asset Value</b> , offering and redemption price per share (\$23,330,822 ÷ 2,386,654 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized)	<b>\$ 9.78</b>
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\* Represents collateral on securities loaned.

## Statement of Operations for the year ended December 31, 2004

### Investment Income

Income:	
Dividends (net of foreign taxes withheld of \$483)	\$ 409,768
Interest — Scudder Cash Management QP Trust	38,767
Securities lending income, including income from Daily Assets Fund Institutional	26,862
<b>Total Income</b>	<b>475,397</b>
Expenses:	
Management fee	1,295,883
Custodian and accounting fees	119,636
Distribution service fees (Class B)	46,764
Record keeping fees (Class B)	24,766
Auditing	74,545
Legal	20,386
Trustees' fees and expenses	2,194
Reports to shareholders	21,943
Other	9,751
<b>Total expenses, before expense reductions</b>	<b>1,615,868</b>
Expense reductions	(1,685)
<b>Total expenses, after expense reductions</b>	<b>1,614,183</b>
<b>Net investment income (loss)</b>	<b>(1,138,786)</b>

### Realized and Unrealized Gain (Loss) on Investment Transactions

Net realized gain (loss) from investments	10,201,612
Net unrealized appreciation (depreciation) during the period on investments	4,371,388
<b>Net gain (loss) on investment transactions</b>	<b>14,573,000</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 13,434,214</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,	
	2004	2003
Operations:		
Net investment income (loss)	\$ (1,138,786)	\$ (800,151)
Net realized gain (loss) on investment transactions	10,201,612	10,584,885
Net unrealized appreciation (depreciation) on investment transactions during the period	4,371,388	23,791,384
Net increase (decrease) in net assets resulting from operations	13,434,214	33,576,118
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	14,595,440	23,691,008
Cost of shares redeemed	(17,916,695)	(6,045,865)
Net increase (decrease) in net assets from Class A share transactions	(3,321,255)	17,645,143
<b>Class B</b>		
Proceeds from shares sold	9,964,790	11,019,067
Cost of shares redeemed	(2,100,980)	(720,077)
Net increase (decrease) in net assets from Class B share transactions	7,863,810	10,298,990
<b>Increase (decrease) in net assets</b>	<b>17,976,769</b>	<b>61,520,251</b>
Net assets at beginning of period	122,908,588	61,388,337
Net assets at end of period (including accumulated net investment loss of \$301 and \$281, respectively)	<b>\$ 140,885,357</b>	<b>\$ 122,908,588</b>

## Other Information

<b>Class A</b>		
Shares outstanding at beginning of period	12,352,137	10,171,623
Shares sold	1,622,749	3,071,391
Shares redeemed	(2,056,828)	(890,877)
Net increase (decrease) in Portfolio shares	(434,079)	2,180,514
Shares outstanding at end of period	<b>11,918,058</b>	<b>12,352,137</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,499,883	96,707
Shares sold	1,126,297	1,496,481
Shares redeemed	(239,526)	(93,305)
Net increase (decrease) in Portfolio shares	886,771	1,403,176
Shares outstanding at end of period	<b>2,386,654</b>	<b>1,499,883</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2004	2003	2002	2001 <sup>a</sup>
<b>Selected Per Share Data</b>				
Net asset value, beginning of period	\$ 8.88	\$ 5.98	\$ 8.82	\$ 10.00
<i>Income (loss) from investment operations:</i>				
Net investment income (loss) <sup>b</sup>	(.07)	(.06)	(.06)	(.04)
Net realized and unrealized gain (loss) on investment transactions	1.05	2.96	(2.78)	(1.14)
<b>Total from investment operations</b>	.98	2.90	(2.84)	(1.18)
Net asset value, end of period	\$ 9.86	\$ 8.88	\$ 5.98	\$ 8.82
Total Return (%)	11.04	48.49	(32.20)	(11.80) <sup>c**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>				
Net assets, end of period (\$ millions)	118	110	61	48
Ratio of expenses before expense reductions (%)	1.19	1.18	1.13	1.82*
Ratio of expenses after expense reductions (%)	1.19	1.18	1.13	1.30*
Ratio of net investment income (loss) (%)	(.82)	(.90)	(.82)	(.76)*
Portfolio turnover rate (%)	174	155	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> Total return would have been lower had certain expenses not been reduced.

\* Annualized

\*\* Not annualized

## Class B

Years Ended December 31,	2004	2003	2002 <sup>a</sup>
<b>Selected Per Share Data</b>			
Net asset value, beginning of period	\$ 8.84	\$ 5.97	\$ 6.60
<i>Income (loss) from investment operations:</i>			
Net investment income (loss) <sup>b</sup>	(.10)	(.09)	(.02)
Net realized and unrealized gain (loss) on investment transactions	1.04	2.96	(.61)
<b>Total from investment operations</b>	.94	2.87	(.63)
Net asset value, end of period	\$ 9.78	\$ 8.84	\$ 5.97
Total Return (%)	10.63	48.07	(9.55) <sup>**</sup>
<b>Ratios to Average Net Assets and Supplemental Data</b>			
Net assets, end of period (\$ millions)	23	13	.6
Ratio of expenses (%)	1.56	1.57	1.38*
Ratio of net investment income (loss) (%)	(1.19)	(1.29)	(.81)*
Portfolio turnover rate (%)	174	155	225

<sup>a</sup> For the period July 1, 2002 (commencement of operations 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. The Trust offers thirty-three portfolios (the “portfolio(s)”). During the period, Scudder Government Securities Portfolio changed its name to Scudder Government & Agency Securities Portfolio and Scudder Contrarian Value Portfolio changed its name to Scudder Large Cap Value Portfolio.

**Multiple Classes of Shares of Beneficial Interest.** The Trust offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to record keeping fees up to 0.15% and Rule 12b-1 fees under the 1940 Act equal to an annual rate of 0.25%, of the average daily net assets of the Class B shares of the 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 and record keeping 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 in securities 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 or official closing 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 Portfolios. 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 a broker-dealer. 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 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. The Portfolios may use a fair valuation model to value international equity securities in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange.

**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. The custodian bank holds the collateral in a separate account until the agreement matures. If the value of the securities falls below the principal amount of the repurchase agreement plus accrued interest, the financial institution deposits additional collateral by the following business day. If the financial institution either fails to deposit the required additional collateral or fails to repurchase the securities as agreed, the portfolios have the right to sell the securities and recover any resulting loss from the financial institution. If the financial institution enters into bankruptcy, the portfolios’ claims on the collateral may be subject to legal proceedings.

**Securities Lending.** Each portfolio, except Scudder Money Market Portfolio and SVS Dreman Small Cap Value Portfolio, may lend securities to financial institutions. The portfolios retain beneficial ownership of the securities they have loaned and continue to receive interest and dividends paid by the securities and to participate in any changes in their market value. The portfolio requires the borrowers of the securities to maintain collateral with the portfolio consisting of liquid, unencumbered assets having a value at least equal to the value of the securities loaned. The portfolio may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. The portfolios receive compensation for lending their securities either in the form of fees or by earning interest on invested cash collateral net fees paid to a lending agent. Either the portfolios or the borrower may terminate the loan. The portfolios are subject to all investment risks associated with the value of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

**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 Fixed Income Portfolio, Scudder Government & Agency Securities Portfolio and Scudder Total Return Portfolio entered into mortgage dollar rolls in which each portfolio sells to a bank or broker/dealer (the “counterparty”) mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase similar, but not identical, securities on a fixed date. The counterparty receives all principal and interest payments, including prepayments, made on the security while it is the holder. Each portfolio receives compensation as consideration for entering into the commitment to repurchase. The compensation is paid in the form of a lower price for the security upon its repurchase, or alternatively, a fee. Mortgage dollar rolls may be renewed with a new sale and repurchase price and a cash settlement made at each renewal without physical delivery of the securities subject to the contract.

Mortgage dollar rolls may be treated for purposes of the 1940 Act as borrowings by each portfolio because they involve the sale of a security coupled with an agreement to repurchase. A mortgage dollar roll involves costs to each portfolio. For example, while each portfolio receives compensation as consideration for agreeing to repurchase the security, each portfolio forgoes the right to receive all principal and interest payments while the counterparty holds the security. These payments to the counterparty may exceed the compensation received by each portfolio, thereby effectively charging each portfolio interest on its borrowings. Further, although each portfolio can estimate the amount of expected principal prepayment over the term of the mortgage dollar roll, a variation in the actual amount of prepayment could increase or decrease the cost of each portfolio’s borrowing.

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 each portfolio is able to repurchase them. There can be no assurance that each portfolio’s use of the cash that it receives from a mortgage dollar roll will provide a return that exceeds its borrowing costs.

**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, 2004, 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	662,000	12/31/2008
	5,489,000	12/31/2009
	8,989,000	12/31/2010
	23,998,000	12/31/2011
Scudder Blue Chip Portfolio	16,525,000	12/31/2010
Scudder Global Blue Chip Portfolio	2,280,000	12/31/2010
	2,456,000	12/31/2011
Scudder Growth Portfolio*	127,000	12/31/2007
	94,269,000	12/31/2009
	39,544,000	12/31/2010
	24,621,000	12/31/2011
	2,184,000	12/31/2012
Scudder High Income Portfolio	4,823,000	12/31/2007

Portfolio	Capital Loss Carryforward (\$)	Expiration Date
	16,114,000	13/31/2008
	22,935,000	12/31/2009
	55,108,000	12/31/2010
	13,877,000	12/31/2011
Scudder International Select Equity Portfolio*	1,217,000	12/31/2008
	23,867,000	12/31/2009
	20,015,000	12/31/2010
	4,400,000	12/31/2011
Scudder Large Cap Value Portfolio	6,183,000	12/31/2008
	11,765,000	12/31/2010
	6,438,000	12/31/2011
Scudder Small Cap Growth Portfolio	73,835,000	12/31/2009
	62,668,000	12/31/2010
Scudder Technology Growth Portfolio	1,211,000	12/31/2008
	94,141,000	12/31/2009
	93,499,000	12/31/2010
	71,516,000	12/31/2011
Scudder Total Return Portfolio	21,387,000	12/31/2009
	8,813,000	12/31/2010
	46,269,000	12/31/2011
SVS Davis Venture Value Portfolio	127,000	12/31/2009
	4,386,000	12/31/2010
	1,390,000	12/31/2011
	1,088,000	12/31/2012
SVS Dreman Financial Services Portfolio	743,000	12/31/2009
	2,479,000	12/31/2010
	2,101,000	12/31/2011
SVS Dreman High Return Equity Portfolio	11,267,000	12/31/2010
	8,043,000	12/31/2011
SVS Eagle Focused Large Cap Growth Portfolio	1,336,000	12/31/2008
	7,024,000	12/31/2009
	13,889,000	12/31/2010
	334,000	12/31/2011
	124,000	12/31/2012
SVS Focus Value+Growth Portfolio	7,136,000	12/31/2009
	15,209,000	12/31/2010
	7,546,000	12/31/2011
SVS Index 500 Portfolio	448,000	12/31/2008
	3,267,000	12/31/2009
	9,116,000	12/31/2010
	3,518,000	12/21/2011
	4,052,000	12/31/2012
SVS INVESCO Dynamic Growth Portfolio	2,320,000	12/31/2010
	377,000	12/31/2011
SVS Janus Growth and Income Portfolio	12,514,000	12/31/2009
	29,907,000	12/31/2010
	6,934,000	12/31/2011
SVS Janus Growth Opportunities Portfolio	130,000	12/31/2008
	31,299,000	12/31/2009
	42,499,000	12/31/2010
	19,473,000	12/31/2011



Portfolio	Capital Loss Carryforward (\$)	Expiration Date
SVS Oak Strategic Equity Portfolio	322,000	12/31/2009
	4,401,000	12/31/2010
	2,522,000	12/31/2011
	3,689,000	12/31/2012
SVS Turner Mid Cap Growth Portfolio	3,770,000	12/31/2010

\* Certain of these losses may be subject to limitations under Section 381–383 of the Internal Revenue Code.

For the period from November 1, 2004 through December 31, 2004, the following portfolios incurred approximate net realized capital losses as follows:

Portfolio	Net Realized Capital Loss (\$)
Scudder Aggressive Growth Portfolio	12,000
Scudder Fixed Income Portfolio	827,000
Scudder Strategic Income Portfolio	266,000
SVS Davis Venture Value Portfolio	576,000
SVS Dreman Financial Services Portfolio	330,000
SVS Eagle Focused Large Cap Growth Portfolio	297,000

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, 2005.

**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.

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, 2004, the portfolios' components of distributable earnings on a tax basis were as follows:

Portfolio	Undistributed ordinary income (\$)	Undistributed net long-term capital gains (\$)	Capital loss carryforwards (\$)	Unrealized appreciation (depreciation) on investments (\$)
Scudder Aggressive Growth Portfolio	—	—	(39,138,000)	10,247,249
Scudder Blue Chip Portfolio	2,788,284	—	(16,525,000)	34,300,956
Scudder Fixed Income Portfolio	10,899,530	1,340,182	—	1,355,749
Scudder Global Blue Chip Portfolio	176,419	—	(4,736,000)	12,789,938
Scudder Government & Agency Securities Portfolio	13,236,546	22,888	—	2,026,301
Scudder Growth Portfolio	2,087,025	—	(160,745,000)	68,325,507
Scudder High Income Portfolio	33,524,911	—	(112,857,000)	7,159,791
Scudder International Select Equity Portfolio	5,970,853	—	(49,499,000)	48,801,610
Scudder Large Cap Value Portfolio	5,207,536	—	(24,386,000)	48,129,819
Scudder Small Cap Growth Portfolio	—	—	(136,503,000)	44,274,203
Scudder Strategic Income Portfolio	6,443,449	200,018	—	4,533,149
Scudder Technology Growth Portfolio	950,788	—	(260,367,000)	13,492,296
Scudder Total Return Portfolio	13,347,018	—	(76,469,000)	60,467,278
SVS Davis Venture Value Portfolio	2,236,932	—	(6,991,000)	65,487,518
SVS Dreman Financial Services Portfolio	2,664,080	—	(5,323,000)	40,116,974
SVS Dreman High Return Equity Portfolio	14,598,035	—	(19,310,000)	152,750,976

Portfolio	Undistributed ordinary income (\$)	Undistributed net long-term capital gains (\$)	Capital loss carryforwards (\$)	Unrealized appreciation (depreciation) on investments (\$)
SVS Dreman Small Cap Value Portfolio	3,681,177	47,131,177	—	124,447,615
SVS Eagle Focused Large Cap Growth Portfolio	405,384	—	(22,707,000)	11,570,163
SVS Focus Value+Growth Portfolio	1,317,035	—	(29,891,000)	21,240,184
SVS Index 500 Portfolio	5,567,565	—	(20,401,000)	27,112,955
SVS INVESCO Dynamic Growth Portfolio	—	—	(2,697,000)	8,466,860
SVS Janus Growth and Income Portfolio	314,797	—	(49,355,000)	41,625,360
SVS Janus Growth Opportunities Portfolio	390,282	—	(93,401,000)	24,965,440
SVS Oak Strategic Equity Portfolio	3,530	—	(10,934,000)	12,405,910
SVS Turner Mid Cap Growth Portfolio	—	—	(3,770,000)	29,700,241

In addition, the tax character of distributions paid by the portfolios is summarized as follows:

Portfolio	Distributions from ordinary income (\$)*		Distributions from long-term capital gains (\$)	
	Years Ended December 31,		Years Ended December 31,	
	2004	2003	2004	2003
Scudder Blue Chip Portfolio	1,683,204	1,361,345	—	—
Scudder Fixed Income Portfolio	11,368,699	7,994,594	1,643,431	—
Scudder Global Blue Chip Portfolio	744,211	165,879	—	—
Scudder Government & Agency Securities Portfolio	12,782,714	24,354,482	—	649,165
Scudder Growth Portfolio	815,090	328,128	—	—
Scudder High Income Portfolio	32,409,504	30,333,486	—	—
Scudder International Select Equity Portfolio	1,778,472	1,550,011	—	—
Scudder Large Cap Value Portfolio	4,405,034	4,373,416	—	—
Scudder Money Market Portfolio	3,060,457	3,501,000	—	—
Scudder Strategic Income Portfolio	2,582,795	853,600	787,439	28,838
Scudder Total Return Portfolio	10,994,018	20,032,407	—	—
SVS Davis Venture Value Portfolio	1,018,451	940,019	—	—
SVS Dreman Financial Services Portfolio	2,372,080	1,864,595	—	—
SVS Dreman High Return Equity Portfolio	12,318,605	11,423,101	—	—
SVS Dreman Small Cap Value Portfolio	3,617,447	3,009,265	—	4,054,538
SVS Focus Value+Growth Portfolio	999,011	874,250	—	—
SVS Index 500 Portfolio	3,410,455	2,880,518	—	—
SVS Janus Growth and Income Portfolio	—	1,270,975	—	—

\* 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. Trust expenses are allocated between the portfolios in proportion to their relative net assets.

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the 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, with the exception of securities in default of principal.

## B. Investment Transactions

During the year ended December 31, 2004, purchases and sales of investment transactions (excluding short-term investments) were as follows:

Portfolio	Purchases (\$)	Proceeds from Sales (\$)
Scudder Aggressive Growth Portfolio	56,789,175	59,781,369
Scudder Blue Chip Portfolio	693,404,785	674,933,893
Scudder Fixed Income Portfolio		
excluding US Treasury Obligations and mortgage dollar roll transactions	271,840,232	214,976,219
US Treasury Obligations	286,946,849	263,430,754
mortgage dollar roll transactions	50,004,606	47,982,413
Scudder Global Blue Chip Portfolio	52,353,407	51,823,610
Scudder Government & Agency Securities Portfolio		
excluding US Treasury Obligations and mortgage dollar roll transactions	673,022,650	805,435,745
US Treasury Obligations	105,802,607	95,188,060
mortgage dollar roll transactions	570,221,935	515,802,279
Scudder Growth Portfolio	64,326,283	92,035,576
Scudder High Income Portfolio		
excluding US Treasury Obligations	656,002,457	668,430,471
US Treasury Obligations	13,697,036	17,043,490
Scudder International Select Equity Portfolio	188,827,851	159,628,994
Scudder Large Cap Value Portfolio	134,634,281	114,648,636
Scudder Small Cap Growth Portfolio	253,177,444	261,463,174
Scudder Strategic Income Portfolio	158,913,262	147,241,324
Scudder Technology Growth Portfolio	265,414,116	304,666,293
Scudder Total Return Portfolio		
excluding US Treasury Obligations and mortgage dollar roll transactions	558,022,325	631,645,604
US Treasury Obligations	297,525,532	296,723,105
mortgage dollar roll transactions	58,904,675	59,144,410
SVS Davis Venture Value Portfolio	59,128,954	7,649,794
SVS Dreman Financial Services Portfolio	13,829,335	12,419,066
SVS Dreman High Return Equity Portfolio	105,373,436	65,563,122
SVS Dreman Small Cap Value Portfolio	354,408,253	313,377,535
SVS Eagle Focused Large Cap Growth Portfolio	109,257,505	92,542,429
SVS Focus Value+Growth Portfolio	81,980,488	90,750,723
SVS Index 500 Portfolio	74,492,688	46,904,835
SVS INVESCO Dynamic Growth Portfolio	49,541,484	51,766,862
SVS Janus Growth and Income Portfolio	101,170,464	103,002,488
SVS Janus Growth Opportunities Portfolio	75,487,064	91,418,044
SVS Oak Strategic Equity Portfolio	41,120,897	34,530,403
SVS Turner Mid Cap Growth Portfolio	227,449,318	221,371,183

For the year ended December 31, 2004, transactions for written options were as follows for the Scudder Strategic Income Portfolio:

	Contract Amounts	Premium (\$)
Beginning of period	49,656	13,199
Written	10,267,865	322,408
Closed	(10,317,521)	(335,607)
End of period	—	—

For the year ended December 31, 2004, transactions for written options were as follows for the Scudder Technology Growth Portfolio:

	Contract Amounts	Premium (\$)
Beginning of period	—	—
Written	26,839	3,395,007
Closed	(10,806)	(1,623,411)
Exercised	(8,174)	(970,465)
Expired	(5,785)	(468,400)
End of period	<b>2,074</b>	<b>332,731</b>

### C. Related Parties

**Management Agreement.** Under the Management Agreement with Deutsche Investment Management Americas Inc. (“DeIM” or the “Advisor”), an indirect, wholly owned subsidiary of Deutsche Bank AG, 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, 2004, 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 Fixed Income Portfolio	0.60%
Scudder Government & Agency Securities Portfolio	0.55%
Scudder Growth Portfolio	0.60%
Scudder High Income Portfolio	0.60%
Scudder International Select Equity Portfolio	0.75%
Scudder Large Cap Value Portfolio	0.75%
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%

For the period January 1, 2004 through September 30, 2004, the Scudder Money Market Portfolio paid a monthly investment management fee of 0.50%, based on the average daily net assets of the portfolio.

Effective October 1, 2004, the Scudder Money Market 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:

Average Daily Net Assets of the Portfolio	Annual Management Fee Rate
\$0–\$215 million	0.500%
next \$335 million	0.375%
next \$250 million	0.300%
over \$800 million	0.250%

Accordingly, for the year ended December 31, 2004, the fee pursuant to the Management Agreement was equivalent to the annual effective rate of 0.49% of the Scudder Money Market Portfolio’s average daily net assets.

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:

<b>Average Daily Net Assets of the Portfolio</b>	<b>Annual Management Fee Rate</b>
\$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%

For the year ended December 31, 2004, the Advisor agreed to limit its fees and reimburse expenses of each class of the Scudder Aggressive Growth Portfolio to the extent necessary to maintain the annual expenses of Class A at 0.95% and Class B at 1.35%. For the year ended December 31, 2004, the Advisor waived \$42,450 of management fees.

Accordingly, for the year ended December 31, 2004, 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	0.68%
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%

For the year ended December 31, 2004, the Advisor agreed to limit its fees and reimburse expenses of each class of the SVS INVESCO Dynamic Growth Portfolio to the extent necessary to maintain the annual expenses of Class A at 1.30% and Class B at 1.70%. For the year ended December 31, 2004, the Advisor waived \$68,858 of management fees.

Accordingly, for the year ended December 31, 2004, 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	0.82%
SVS Turner Mid Cap Growth Portfolio	1.00%

SVS Davis Venture Value 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%

For the period January 1, 2004 through September 30, 2004, the SVS Eagle Focused Large Cap Growth Portfolio paid 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%

Effective October 1, 2004 through October 1, 2005, the SVS Eagle Focused Large Cap Growth 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 rate shown below:

<b>Average Daily Net Assets of the Portfolio</b>	<b>Annual Management Fee Rate</b>
SVS Eagle Focused Large Cap Growth Portfolio	0.700%

Accordingly, for the year ended December 31, 2004, 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	0.88%
SVS Janus Growth and Income Portfolio	0.95%
SVS Janus Growth Opportunities Portfolio	0.95%
SVS Oak Strategic Equity Portfolio	0.95%

For the period January 1, 2004 through September 30, 2004, the SVS Index 500 Portfolio paid 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%

Effective October 1, 2004, 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 rate shown below:

<b>Average Daily Net Assets of the Portfolio</b>	<b>Annual Management Fee Rate</b>
SVS Index 500 Portfolio	0.200%

Accordingly, for the year ended December 31, 2004, the fee pursuant to the Management Agreement was equivalent to an annual effective rate of 0.32% of SVS Index 500 Portfolio's average daily net assets.

For the year ended December 31, 2004, the Advisor agreed to limit its fees and reimburse expenses of each class of the SVS Index 500 Portfolio to the extent necessary to maintain the annual expenses of Class A at 0.55% and Class B at 0.95%. Effective October 1, 2004 through September 30, 2005, the Advisor agreed to limit its fees and reimburse expenses of the SVS Index 500 Portfolio to the extent necessary to maintain the annual expenses of Class A at 0.377% and Class B at 0.627% (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and fund accounting outsourcing fee savings). Accordingly, for the year ended December 31, 2004, the Advisor waived \$5,655 of other expenses.

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, 2004, the fee pursuant to the Management Agreement was equivalent to an annual effective rate of 1.00% of Scudder Global Blue Chip Portfolio's average daily net assets.

Deutsche Asset Management Investment Services Limited ("DeAMIS") serves as sub-advisor to the Scudder International Select Equity, Scudder Strategic Income and Scudder Total Return 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 Institutional (N.A.) Inc. 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 Advisers, 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 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.

Northern Trust Investments, N.A. ("NTI") serves as sub-advisor to SVS Index 500 Portfolio and is paid by the Advisor for its services.

The portfolios paid insurance premiums to an unaffiliated insurance broker in 2002 and 2003. This broker in turn paid a portion of its commissions to an affiliate of the Advisor, which performed certain insurance brokerage services for the broker. The Advisor

has agreed to reimburse the portfolios in 2005 for the portion of commissions (plus interest) paid to the affiliate of the Advisor attributable to the premiums paid by the portfolios. The amounts for 2002 and 2003 are as follows:

Portfolio	Amount (\$)	
	2002	2003
Scudder Aggressive Growth Portfolio	15	17
Scudder Blue Chip Portfolio	64	74
Scudder Fixed Income Portfolio	76	80
Scudder Global Blue Chip Portfolio	15	16
Scudder Government & Agency Securities Portfolio	187	136
Scudder Growth Portfolio	90	95
Scudder High Income Portfolio	104	121
Scudder International Select Equity Portfolio	33	44
Scudder Large Cap Value Portfolio	78	75
Scudder Money Market Portfolio	223	162
Scudder Small Cap Growth Portfolio	54	64
Scudder Strategic Income Portfolio	19	20
Scudder Technology Growth Portfolio	69	73
Scudder Total Return Portfolio	243	211
SVS Davis Venture Value Portfolio	55	66
SVS Dreman Financial Services Portfolio	42	43
SVS Dreman High Return Equity Portfolio	172	198
SVS Dreman Small Cap Value Portfolio	94	100
SVS Eagle Focused Large Cap Growth Portfolio	22	27
SVS Focus Value+Growth Portfolio	35	35
SVS Index 500 Portfolio	80	94
SVS INVESCO Dynamic Growth Portfolio	8	11
SVS Janus Growth & Income Portfolio	60	59
SVS Janus Growth Opportunities Portfolio	42	41
SVS Oak Strategic Equity Portfolio	13	22
SVS Turner Mid Cap Growth Portfolio	21	32

**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. In turn, SFAC has delegated certain fund accounting functions to a third-party service provider. For the year ended December 31, 2004, SFAC received the following fee for its services for the following portfolios:

Portfolio	Total Aggregated (\$)	Waived (\$)	Unpaid at December 31, 2004 (\$)
Scudder Aggressive Growth Portfolio	72,186	—	15,331
Scudder Global Blue Chip Portfolio	100,052	—	21,687
Scudder Technology Growth Portfolio	71,164	—	19,519
SVS Davis Venture Value Portfolio	88,473	—	20,793
SVS Dreman Financial Services Portfolio	59,176	—	13,557
SVS Dreman High Return Equity Portfolio	133,714	—	30,357
SVS Eagle Focused Large Cap Growth Portfolio	71,185	—	17,799
SVS Index 500 Portfolio	137,196	—	42,099
SVS INVESCO Dynamic Growth Portfolio	98,193	—	24,100
SVS Janus Growth and Income Portfolio	73,094	—	18,002
SVS Janus Growth Opportunities Portfolio	64,004	—	14,898
SVS Oak Strategic Equity Portfolio	58,218	—	13,091
SVS Turner Mid Cap Growth Portfolio	99,561	—	21,798



**Distribution Service Agreement.** Under the Distribution Service Agreement, in accordance with Rule 12b-1 under the 1940 Act, SISC, receives a fee (“Distribution Service Fee”) of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2004, the Distribution Service Fee was as follows:

Portfolio	Total Aggregated (\$)	Waived (\$)	Unpaid at December 31, 2004 (\$)
Scudder Aggressive Growth Portfolio	12,985	—	1,331
Scudder Blue Chip Portfolio	67,530	—	7,396
Scudder Fixed Income Portfolio	175,814	—	16,456
Scudder Global Blue Chip Portfolio	23,461	—	2,556
Scudder Government & Agency Securities Portfolio	112,953	—	10,300
Scudder Growth Portfolio	29,642	—	3,276
Scudder High Income Portfolio	116,895	—	11,765
Scudder International Select Equity Portfolio	78,650	—	9,313
Scudder Large Cap Value Portfolio	81,071	—	8,287
Scudder Money Market Portfolio	157,184	—	11,738
Scudder Small Cap Growth Portfolio	55,527	—	5,777
Scudder Strategic Income Portfolio	39,636	—	3,876
Scudder Technology Growth Portfolio	34,701	—	3,348
Scudder Total Return Portfolio	66,432	—	6,595
SVS Davis Venture Value Portfolio	121,863	—	13,276
SVS Dreman Financial Services Portfolio	34,738	—	3,504
SVS Dreman High Return Equity Portfolio	230,719	—	23,607
SVS Dreman Small Cap Value Portfolio	128,313	—	13,939
SVS Eagle Focused Large Cap Growth Portfolio	60,991	—	6,510
SVS Focus Value+Growth Portfolio	22,563	—	2,275
SVS Index 500 Portfolio	128,429	—	14,996
SVS INVESCO Dynamic Growth Portfolio	14,375	—	1,359
SVS Janus Growth and Income Portfolio	53,141	—	5,521
SVS Janus Growth Opportunities Portfolio	17,186	—	1,709
SVS Oak Strategic Equity Portfolio	42,282	—	4,373
SVS Turner Mid Cap Growth Portfolio	46,764	—	4,752

**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.

#### D. Investing in High Yield Securities

Investing in high yield securities may involve greater risks and considerations not typically associated with investing in US Government bonds and other high quality fixed-income securities. These securities are non-investment grade securities, often referred to as “junk bonds.” Economic downturns may disrupt the high yield market and impaired the ability of issuers to repay principal and interest. Also, an increase in interest rates would likely have an adverse impact on the value of such obligations. Moreover, high yield securities may be less liquid due to the extent that there is no established retail secondary market and because of a decline in the value of such securities.

#### 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, social 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 Reductions

For the year ended December 31, 2004, the Advisor agreed to reimburse the Portfolios which represents a portion of the fee savings expected to be realized by the Advisor related to the outsourcing by the Advisor of certain administrative services to an unaffiliated service provider in the following amounts:

<b>Portfolio</b>	<b>Amount (\$)</b>
Scudder Aggressive Growth Portfolio	1,090
Scudder Blue Chip Portfolio	2,838
Scudder Fixed Income Portfolio	2,780
Scudder Global Blue Chip Portfolio	1,159
Scudder Government & Agency Securities Portfolio	3,370
Scudder Growth Portfolio	3,025
Scudder High Income Portfolio	3,853
Scudder International Select Equity Portfolio	2,084
Scudder Large Cap Value Portfolio	3,005
Scudder Money Market Portfolio	3,903
Scudder Small Cap Growth Portfolio	2,359
Scudder Strategic Income Portfolio	1,248
Scudder Technology Growth Portfolio	2,420
Scudder Total Return Portfolio	5,835
SVS Davis Venture Value Portfolio	2,965
SVS Dreman Financial Services Portfolio	1,865
SVS Dreman High Return Equity Portfolio	6,773
SVS Dreman Small Cap Value Portfolio	4,133
SVS Eagle Focused Large Cap Growth Portfolio	1,493
SVS Focus Value+Growth Portfolio	1,595
SVS Index 500 Portfolio	3,377
SVS INVESCO Dynamic Growth Portfolio	951
SVS Janus Growth and Income Portfolio	2,213
SVS Janus Growth Opportunities Portfolio	1,698
SVS Oak Strategic Equity Portfolio	1,351
SVS Turner Mid Cap Growth Portfolio	1,633

In addition, 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 portfolios' expenses. During the year ended December 31, 2004, the portfolios' custodian fees were reduced under these arrangements as follows:

<b>Portfolio</b>	<b>Amount (\$)</b>
Scudder Aggressive Growth Portfolio	228
Scudder Blue Chip Portfolio	96
Scudder Fixed Income Portfolio	1,290
Scudder Government & Agency Securities Portfolio	607
Scudder Growth Portfolio	18
Scudder High Income Portfolio	5,056
Scudder Large Cap Value Portfolio	29
Scudder Money Market Portfolio	477
Scudder Small Cap Growth Portfolio	225
Scudder Strategic Income Portfolio	769
Scudder Technology Growth Portfolio	190
Scudder Total Return Portfolio	982
SVS Davis Venture Value Portfolio	80
SVS Dreman Financial Services Portfolio	31
SVS Dreman High Return Equity Portfolio	36
SVS Dreman Small Cap Value Portfolio	2,577

Portfolio	Amount (\$)
SVS Eagle Focused Large Cap Growth Portfolio	57
SVS Focus Value+Growth Portfolio	28
SVS Index 500 Portfolio	69
SVS INVESCO Dynamic Growth Portfolio	57
SVS Janus Growth and Income Portfolio	56
SVS Janus Growth Opportunities Portfolio	30
SVS Oak Strategic Equity Portfolio	14
SVS Turner Mid Cap Growth Portfolio	52

## G. Forward Foreign Currency Exchange Contracts

As of December 31, 2004, the following portfolios had entered into the following forward foreign currency exchange contracts resulting in the following:

### Scudder High Income Portfolio

Contracts to Deliver	In Exchange For	Settlement Date	Unrealized Depreciation (US\$)
EUR 2,228,993	USD 2,735,509	3/9/2005	\$ (296,355)
EUR 988,923	USD 1,277,535	3/9/2005	(67,593)
EUR 4,836,637	USD 6,107,888	3/9/2005	(470,879)
EUR 155,813	USD 207,473	5/27/2005	(4,773)
MXN 14,499,776	USD 1,240,211	3/9/2005	(45,005)
<b>Total unrealized depreciation</b>			<b>\$ (884,605)</b>

### Scudder Strategic Income Portfolio

Contracts to Deliver	In Exchange For	Settlement Date	Unrealized Appreciation (US\$)
USD 184,193	EUR 146,000	1/25/2005	\$ 14,290
USD 294,869	EUR 396,257	1/27/2005	4,616
USD 92,053	EUR 73,000	1/27/2005	7,190
USD 170,883	EUR 134,000	1/27/2005	11,289
USD 159,960	EUR 120,000	1/27/2005	3,179
USD 137,120	MXN 1,560,000	1/27/2005	2,161
USD 130,000	RUB 3,711,500	1/27/2005	3,934
USD 110,000	TRL 177,760,000,000	1/27/2005	67,760
USD 100,000	TRL 149,800,000,000	1/27/2005	49,800
USD 121,954	TRL 180,794,000,000	1/27/2005	58,839
USD 130,000	TWD 4,192,500	1/27/2005	2,456
USD 115,192	ARS 345,000	1/27/2005	1,460
USD 235,000	BRL 716,162	1/28/2005	31,083
<b>Total unrealized appreciation</b>			<b>\$ 258,057</b>

Contracts to Deliver	In Exchange For	Settlement Date	Unrealized Depreciation (US\$)
EUR 1,839,002	USD 2,256,455	1/21/2005	\$ (243,560)
EUR 823,877	USD 1,099,999	1/21/2005	(19,855)
GBP 1,019,863	USD 1,810,257	1/21/2005	(144,887)
EUR 1,400,000	USD 1,766,100	1/27/2005	(137,193)
EUR 110,000	USD 140,307	1/27/2005	(9,237)
EUR 37,590	USD 50,000	1/27/2005	(1,103)
MXN 1,144,040	USD 97,982	1/27/2005	(4,161)
MXN 1,799,920	USD 160,000	1/27/2005	(702)
MXN 2,928,328	USD 260,000	1/27/2005	(1,449)
TRL 330,594,000,000	USD 211,851	1/27/2005	(118,743)

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation (US\$)
TRL	177,760,000,000	USD	109,256	1/27/2005	(68,504)
BRL	384,670	USD	130,000	1/28/2005	(12,920)
BRL	331,492	USD	119,113	1/28/2005	(4,049)
EUR	139,576	USD	171,293	3/9/2005	(18,558)
EUR	19,412	USD	23,799	3/9/2005	(2,605)
EUR	52,001	USD	63,129	3/9/2005	(7,602)
EUR	51,657	USD	63,616	3/9/2005	(6,648)
EUR	51,667	USD	64,042	3/9/2005	(6,235)
EUR	56,094	USD	68,996	3/9/2005	(7,303)
EUR	22,386	USD	28,456	3/9/2005	(1,994)
EUR	54,251	USD	69,108	3/9/2005	(4,683)
EUR	14,880	USD	19,140	3/9/2005	(1,099)
EUR	115,504	USD	149,213	3/9/2005	(7,895)
EUR	21,379	USD	27,870	3/9/2005	(1,210)
EUR	15,341	USD	20,370	3/9/2005	(497)
EUR	13,174	USD	17,730	3/9/2005	(190)
MXN	1,111,737	USD	94,907	3/9/2005	(3,634)
MXN	78,094	USD	6,622	3/9/2005	(300)
MXN	85,204	USD	7,508	3/9/2005	(44)
EUR	15,582	USD	20,748	5/27/2005	(477)
<b>Total unrealized depreciation</b>					<b>\$ (837,337)</b>

#### Scudder Total Return Portfolio

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation (US\$)
AUD	760,000	NZD	834,998	1/27/2005	\$ 3,475
NZD	853,230	AUD	798,000	1/27/2005	18,700
EUR	469,000	USD	623,796	1/27/2005	13,808
USD	1,861,234	JPY	191,400,000	1/27/2005	10,181
USD	623,110	JPY	65,100,000	1/27/2005	13,406
AUD	760,000	NZD	834,998	1/27/2005	3,307
USD	1,236,436	SEK	8,500,000	1/27/2005	42,955
EUR	469,856	SEK	4,210,000	1/27/2005	7,652
USD	614,292	TWD	19,900,000	1/27/2005	14,418
<b>Total unrealized appreciation</b>					<b>\$ 127,902</b>

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation (US\$)
NZD	2,619,711	AUD	2,365,000	1/27/2005	\$ (1,813)
EUR	147,700	USD	194,392	1/27/2005	(6,406)
EUR	45,108	USD	60,000	1/27/2005	(1,324)
EUR	469,859	SEK	4,210,000	1/27/2005	(12,744)
EUR	460,000	USD	611,101	1/27/2005	(14,267)
GBP	330,000	USD	610,566	1/27/2005	(21,798)
JPY	64,000,000	USD	621,661	1/27/2005	(4,099)
MXN	2,294,000	USD	201,502	1/27/2005	(3,313)
NZD	2,619,710	AUD	2,365,000	1/27/2005	(34,648)
NZD	853,230	AUD	798,000	1/27/2005	(8,889)
EUR	231,151	USD	298,612	3/9/2005	(15,799)
EUR	442,689	USD	574,818	3/9/2005	(27,325)
EUR	20,520	USD	26,168	3/9/2005	(1,744)
MXN	26,990,237	USD	2,319,945	3/9/2005	(72,386)

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation (US\$)
EUR	25,969	USD	34,579	5/27/2005	(796)
<b>Total unrealized depreciation</b>					<b>\$ (227,351)</b>

#### SVS Janus Growth and Income Portfolio

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation (US\$)
CHF	800,000	USD	641,849	4/15/2005	\$ (65,587)
CHF	925,000	USD	735,996	4/15/2005	(81,977)
CHF	180,000	USD	154,089	4/15/2005	(5,083)
EUR	915,000	USD	1,126,914	4/15/2005	(118,433)
EUR	325,000	USD	409,841	4/15/2005	(32,495)
<b>Total unrealized depreciation</b>					<b>\$ (303,575)</b>

#### Currency Abbreviations:

ARS	Argentine Peso	JPY	Japanese Yen
BRL	Brazilian Real	MXN	Mexican Peso
CHF	Swiss Franc	RUB	Russian Ruble
EUR	Euro	TRL	Turkish Lira
GBP	British Pound	USD	United States Dollar
AUD	Australian Dollar	SEK	Swedish Krona
TWD	Taiwanese Dollar	NZD	New Zealand Dollar

## H. Ownership of the Portfolios

At December 31, 2004, 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 64% and 32%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 86% and 14%.

**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 54% and 38%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 82% and 18%.

**Scudder Fixed 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 40% and 38%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 85%.

**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 57% and 41%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 74% and 26%.

**Scudder Government & Agency 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 43%, 31% and 19%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 89%.

**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 47%, 28% and 21%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 83% and 16%.

**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 38%, 32% and 27%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 84% and 16%.

**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 38%, 30% and 29%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 67% and 33%.

**Scudder Large 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 43%, 37% and 17%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 84% and 16%.

**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%, 35% and 22%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 61% and 34%.

**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 42%, 28% and 26%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 87%.

**Scudder Strategic 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 48% and 48%. Two Participating Insurance Companies were owners of record of 10% or more of the outstanding Class B shares of the Portfolio, each owning 72% and 28%.

**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 60% and 35%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 83% and 16%.

**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 48%, 32% and 19%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 80% and 19%.

**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 75% and 24%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 77% and 22%.

**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 55% and 42%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 81% and 19%.

**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 67% and 29%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 87% and 12%.

**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 55%, 30% and 13%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 81% and 15%.

**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 68% and 26%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 88%.

**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 50%, 34% and 14%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 89% and 11%.

**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 67% and 31%. 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%.

**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 80% and 20%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 91%.

**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 69% and 30%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 86% and 14%.

**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 69% and 31%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 92%.

**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 80% and 20%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 84% and 11%.

**SVS Turner Mid 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, owning 81% and 19%. 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%.

## I. Line of Credit

The Trust and several other affiliated funds (the “Participants”) share in a \$1.25 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, 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:

<b>Portfolio</b>	<b>Facility Borrowing Limit</b>
Scudder Aggressive Growth Portfolio	33%
Scudder Blue Chip Portfolio	33%
Scudder Fixed Income Portfolio	33%
Scudder Global Blue Chip Portfolio	33%
Scudder Government & Agency Securities Portfolio	33%
Scudder Growth Portfolio	33%
Scudder High Income Portfolio	33%
Scudder International Select Equity Portfolio	33%
Scudder Large Cap Value 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%

## J. Regulatory Matters and Litigation

Since at least July 2003, federal, state and industry regulators have been conducting ongoing inquiries and investigations (“inquiries”) into the mutual fund industry, and have requested information from numerous mutual fund companies, including Scudder Investments. It is not possible to determine what the outcome of these inquiries will be or what the effect, if any, would be on the funds or their advisors. Publicity about mutual fund practices arising from these industry-wide inquiries serves as the general basis of a number of private lawsuits against the Scudder funds. These lawsuits, which previously have been reported in the press, involve purported class action and derivative lawsuits, making various allegations and naming as defendants various persons, including certain Scudder funds, the funds’ investment advisors and their affiliates, certain individuals, including in some cases fund Trustees/Directors, officers, and other parties. Each Scudder fund’s investment advisor has agreed to indemnify the applicable Scudder funds in connection with these lawsuits, or other lawsuits or regulatory actions that may be filed making allegations similar to these lawsuits regarding market timing, revenue sharing, fund valuation or other subjects arising from or related to the pending inquiries. Based on currently available information, the funds’ investment advisors believe the likelihood that the pending lawsuits will have a material adverse financial impact on a Scudder fund is remote and such actions are not likely to materially affect their ability to perform under their investment management agreements with the Scudder funds.

## K. Payments Made by Affiliates

During the year ended December 31, 2004, the Advisor fully reimbursed the Government and Agency Securities Portfolio \$2,420 for losses incurred in violation of investment restrictions.

## L. Fund Mergers

On January 20, 2005, the Board of the following Acquired Portfolios approved, in principle, the merger of the Acquiring Portfolio into the Acquired Portfolio, a Scudder fund managed by the same portfolio management team.

Completion of the merger is subject to a number of conditions, including final approval by the Portfolio's Board and approval by the shareholders of the Portfolio at a shareholder meeting expected to be held within approximately the next five months.

<b>Acquired Portfolios</b>	<b>Acquiring Portfolios</b>
SVS Focus Value+Growth Portfolio	SVSI Growth and Income Portfolio
Scudder Growth Portfolio	SVSI Capital Growth Portfolio



# Report of Independent Registered Public Accounting Firm

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## **To the Shareholders and Board of Trustees 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 Fixed Income, Scudder Global Blue Chip, Scudder Government & Agency Securities (formerly, Scudder Government Securities), Scudder Growth, Scudder High Income, Scudder International Select Equity, Scudder Large Cap Value (formerly, Scudder Contrarian Value), Scudder Money Market, Scudder Small Cap Growth, Scudder Strategic Income, Scudder Technology Growth, Scudder Total Return, SVS Davis Venture Value, SVS Dreman Financial Services, SVS Dreman High Return Equity, SVS Dreman Small Cap Value, SVS Eagle Focused Large Cap Growth, SVS Focus Value+Growth, SVS Index 500, SVS INVESCO Dynamic Growth, SVS Janus Growth and Income, SVS Janus Growth Opportunities, SVS Oak Strategic Equity, and SVS Turner Mid Cap Growth Portfolios (twenty-six of the portfolios constituting the Scudder Variable Series II [the "Trust"]) as of December 31, 2004, 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 the standards of the Public Company Accounting Oversight Board (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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2004, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. 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 aforementioned portfolios of the Scudder Variable Series II at December 31, 2004, 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 U.S. generally accepted accounting principles.

Boston, Massachusetts  
February 15, 2005

*Ernst + Young LLP*

The following portfolios paid distributions from net long-term capital gains during the year ended December 31, 2004 as follows:

Portfolio	Distribution Per Share (\$)	% Representing 15% Rate Gains
Scudder Fixed Income Portfolio	.08	100
Scudder Strategic Income Portfolio	.013	100

The following portfolios designated as capital gain dividends for its year ended December 31, 2004:

Portfolio	Capital Gain (\$)	% Representing 15% Rate Gains
Scudder Fixed Income Portfolio	1,470,000	100
Scudder Government & Agency Securities Portfolio	30,000	100
Scudder Strategic Income Portfolio	270,000	100
SVS Dreman Small Cap Value Portfolio	51,844,000	100

For corporate shareholders, the following percentage of income dividends paid during the following portfolios' fiscal year ended December 31, 2004 qualified for the dividends received deduction:

Portfolio	%
Scudder Blue Chip Portfolio	100
Scudder Global Blue Chip Portfolio	46
Scudder Growth Portfolio	100
Scudder Large Cap Value Portfolio	100
Scudder Total Return Portfolio	53
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 Index 500 Portfolio	100

Scudder International Select Equity Portfolio paid foreign taxes of \$537,188 and earned \$3,892,991 of foreign source income during the year ended December 31, 2004. Pursuant to Section 853 of the Internal Revenue Code, Scudder International Select Equity Portfolio designates \$0.03 per share as foreign taxes paid and \$0.20 per share as income earned from foreign sources for the year ended December 31, 2004.

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 (800) 621-1048.

## Proxy Voting

A description of the Trust's policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site — [scudder.com](http://scudder.com) (type "proxy voting" in the search field) — or on the SEC's Web site — [www.sec.gov](http://www.sec.gov). To obtain a written copy of the Trust's policies and procedures without charge, upon request, call us toll free at (800) 621-1048.

# Trustees and Officers

The following table presents certain information regarding the Trustees and Officers of the Trust as of December 31, 2004. 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, retires or is removed as provided in the governing documents of the Trust.

Independent Trustees		
Name, Year of Birth, 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
Shirley D. Peterson (1941) Chairman, 2004–present 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), US Department of Justice. Directorships: Federal Mogul Corp. (supplier of automotive components and subsystems); AK Steel (steel production); Goodyear Tire & Rubber Co. (April 2004–present); Champion Enterprises, Inc. (manufactured home building); Trustee, Bryn Mawr College. Former Directorship: Bethlehem Steel Corp.	86
John W. Ballantine (1946) 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: First Oak Brook Bancshares, Inc.; Oak Brook Bank; American Healthways, Inc. (provider of disease and care management services); Portland General Electric (utility company)	86
Lewis A. Burnham (1933) Trustee, 1977–present	Retired; formerly, Director of Management Consulting, McNulty & Company (1990–1998); prior thereto, Executive Vice President, Anchor Glass Container Corporation	86
Donald L. Dunaway (1937) Trustee, 1980–present	Retired; formerly, Executive Vice President, A.O. Smith Corporation (diversified manufacturer) (1963–1994)	86
James R. Edgar (1946) 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.; Yobet.com (online wagering platform); Alberto-Culver Company (manufactures, distributes and markets health and beauty care products)	86
Paul K. Freeman (1950) Trustee, 2002–present	President, Cook Street Holdings (consulting); Senior Visiting Research Scholar, Graduate School of International Studies, 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)	86
Robert B. Hoffman (1936) 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). Directorships: RCP Advisors, LLC (a private equity investment advisory firm)	86
William McClayton (1945) Trustee, 2004–present	Managing Director of Finance and Administration, DiamondCluster International, Inc. (global management consulting firm) (2001–present); formerly, Partner, Arthur Andersen LLP (1986–2001). Formerly: Trustee, Ravinia Festival; Board of Managers, YMCA of Metropolitan Chicago	86
Robert H. Wadsworth (1940) Trustee, 2004–present	President, Robert H. Wadsworth Associates, Inc. (consulting firm) (May 1983–present). Formerly, President and Trustee, Trust for Investment Managers (registered investment company) (April 1999–June 2002); President, Investment Company Administration, L.L.C. (January 1992*–July 2001); President, Treasurer and Director, First Fund Distributors, Inc. (June 1990–January 2002); Vice President, Professionally Managed Portfolios (May 1991–January 2002) and Advisors Series Trust (October 1996–January 2002) (registered investment companies). * Inception date of the corporation which was the predecessor to the L.L.C.	145
John G. Weithers (1933) Trustee, 1993–present	Retired; formerly, Chairman of the Board and Chief Executive Officer, Chicago Stock Exchange. 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	86
Interested Trustee and Officers <sup>2</sup>		
Name, Year of Birth, 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 N. Shiebler <sup>3</sup> (1942) Trustee, 2004–present	Chief Executive Officer in the Americas for Deutsche Asset Management (“DeAM”) and a member of the DeAM Global Executive Committee (since 2002); Vice Chairman of Putnam Investments, Inc. (1999); Director and Senior Managing Director of Putnam Investments, Inc. and President, Chief Executive Officer, and Director of Putnam Mutual Funds Inc. (1990–1999)	137

Name, Year of Birth, 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
Julian F. Sluyters <sup>4</sup> (1960) President and Chief Executive Officer, 2004–present	Managing Director, Deutsche Asset Management (since May 2004); President and Chief Executive Officer of The Germany Fund, Inc., The New Germany Fund, Inc., The Central Europe and Russia Fund, Inc., The Brazil Fund, Inc., The Korea Fund, Inc., Scudder Global High Income Fund, Inc. and Scudder New Asia Fund, Inc. (since May 2004); President and Chief Executive Officer, UBS Fund Services (2001–2003); Chief Administrative Officer (1998–2001) and Senior Vice President and Director of Mutual Fund Operations (1991–1998) UBS Global Asset Management	n/a
Philip J. Collora (1945) Vice President and Assistant Secretary, 1986–present	Director, Deutsche Asset Management	n/a
Kenneth Murphy <sup>5</sup> (1963) Vice President, 2002–present	Vice President, Deutsche Asset Management (2000–present); formerly, Director, John Hancock Signature Services (1992–2000)	n/a
Paul H. Schubert <sup>4</sup> (1963) Chief Financial Officer, 2004–present	Managing Director, Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds at UBS Global Asset Management (1994–2004)	n/a
Charles A. Rizzo <sup>5</sup> (1957) Treasurer, 2002–present	Managing Director, Deutsche Asset Management (since April 2004); formerly, Director, Deutsche Asset Management (April 2000–March 2004); 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
John Millette <sup>5</sup> (1962) Secretary, 2001–present	Director, Deutsche Asset Management	n/a
Lisa Hertz <sup>4</sup> (1970) Assistant Secretary, 2003–present	Assistant Vice President, Deutsche Asset Management	n/a
Daniel O. Hirsch <sup>6</sup> (1954) Assistant Secretary, 2002–present	Managing Director, 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
Caroline Pearson <sup>5</sup> (1962) Assistant Secretary, 1998–present	Managing Director, Deutsche Asset Management	n/a
Kevin M. Gay <sup>5</sup> (1959) Assistant Treasurer, 2004–present	Vice President, Deutsche Asset Management	n/a
Salvatore Schiavone <sup>5</sup> (1965) Assistant Treasurer, 2003–present	Director, Deutsche Asset Management	n/a
Kathleen Sullivan D’Eramo <sup>5</sup> (1957) Assistant Treasurer, 2003–present	Director, Deutsche Asset Management	n/a
Philip Gallo <sup>4</sup> (1962) Chief Compliance Officer, 2004–present	Managing Director, Deutsche Asset Management (2003–present); formerly, Co-Head of Goldman Sachs Asset Management Legal (1994–2003)	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, the 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. Interested persons receive no compensation from the fund.

<sup>3</sup> Address: 280 Park Avenue, New York, New York

<sup>4</sup> Address: 345 Park Avenue, New York, New York

<sup>5</sup> Address: Two International Place, Boston, Massachusetts

<sup>6</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: 1-800-621-1048.

## 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 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  
(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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SVS2-B-2 (2/28/05)

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NO BANK GUARANTEE    NOT A DEPOSIT  
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY**

*This report must be preceded or accompanied by the current prospectus. Read it carefully before investing.*

*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 Administrative Office: 2500 Westfield Drive, Elgin, IL 60123. Scudder Destinations<sup>SM</sup> may not be available in all states. The contract contains limitations and policy forms may vary by state.*

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